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TABLE OF CONTENTS

EXECUTIVE SUMMARY

CALIFORNIA ECONOMIC SUMMIT
SUMMARY OF TESTIMONY

As he opened the California Economic Summit on the morning of February 16, Assembly Speaker Willie L. Brown, Jr. posed three questions about the California economy to the audience and participants:

- Where are we now?
- How did we get here?
- What do we need to do to restore California's economy to prosperity?

The following is a summary of the discussion and debate that ensued.

ECONOMIC OVERVIEW

THE NATIONAL ECONOMY

Few people will dispute that California is enduring its toughest economic times since the great depression. Although the downturn began later in California than the rest of the country, it also has lasted longer. In the last three years, California has lost 800,000 jobs, an astounding 38 percent of all jobs lost in the U.S. during the same period. Unlike the recession of the early 1980s, there is compelling evidence that many of these jobs will not return even when the economy recovers.

Although some causes of California's economic problems are home-grown, others are national in origin. The U.S. economy, according to **James Tobin**, Professor Emeritus of Economics at Yale University, faces both short-term and long-term problems: the recession is a short-term, cyclic slowdown of economic activity, which leads to job losses. The impact of the recession, however, has obscured the economy's long-term problem of low productivity growth.

John Shoven, the director of the Center for Economics Policy Research at Stanford University, described the economy's long-term productivity problem with disarming simplicity: paychecks aren't growing. Real hourly wages in 1992, according to **Shoven**, are at 1963 levels; weekly paychecks, adjusted for inflation, equal those of the late 1950s.

Nor are paychecks likely to grow when California and the nation emerge from the current recession. As **Stephen Levy**, co-director of the Center for the Continuing Study of the California Economy (CCSCE), pointed out, wages since 1973 have remained flat even during years of phenomenal job growth.

Job growth doesn't lead to higher wages, according to **Tobin**, unless productivity also increases. "That's the secret to having higher real wages," he said; "not necessarily more jobs, but better jobs, quality jobs and higher paid jobs." To improve productivity and make paychecks rise, said **Shoven**, we must give workers better tools, by investing not only in better equipment, but also in a better education and in better public infrastructure.

Of course, equipment, education, and infrastructure carry a hefty price tag, especially in the face of chronic federal budget deficits and the third straight year of state budget shortfalls. But the Summit heard consensus support for increased investment, both by private business and the government.

Mickey Kantor, the U.S. Trade Representative, declared the Clinton administration's intent to shift from a "consume and borrow" economy to one of "invest and grow," through targeted federal spending and tax and fiscal policies that will encourage business investments in plant, equipment, and worker training. Though essential, it won't be easy. As **James Tobin** described it, the federal government must engage in a delicate balancing act between increased spending to stimulate the economy out of recession and deficit reduction to encourage more saving and investment.

THE CALIFORNIA ECONOMY

The Summit heard spirited debate over the causes of California's economic nose dive. **Robert Arnold**, co-director of CCSCE, argued that the California economy is inextricably linked to the performance of the national economy. He cited historical data to show that California's economic downturns and recoveries have tracked national economic activity.

According to **Arnold**, 91 percent of California's job loss during the current recession can be attributed to causes or policies that are national in scope:

- National recession and slow recovery 41%
- Construction and related job loss 30%
- Defense cutbacks 21%

Based on these findings, **Arnold** concluded that a national recovery is the overriding necessary factor for a California economic recovery.

While not rejecting Arnold's findings, **John Wilson**, Chief Economist for the Bank of America, cited three major structural forces influencing California's economy:

- Corporate downsizing -- half of the state's entire labor force works in an industry that is downsizing due to overcapacity, increased competition, defense cutbacks, or -- in the case of government -- budget shortfalls. Other workers are in strongly cyclical industries, principally construction.
- Rapid population growth relative to job creation -- historically, California has created one new job for every two new residents. Since 1988, the combination of rapid population growth and

the economic recession has increased the ratio to 50 new residents for every new job created.

- Failure to invest in the economy -- the historical vibrancy of the California economy has led to "benign neglect" by the state's citizens and policymakers.

Tapan Munroe, Chief Economist for Pacific Gas and Electric, identified several reasons for corporate downsizing, including global competition, a rapid rise in employment costs compared to capital costs, and technology changes that have dropped the cost of computerization. Unlike recession-driven job loss, most jobs lost to downsizing will not come back when the economy emerges from recession. **James Tobin** cited two facts to demonstrate the underlying impact of downsizing: national unemployment is now higher than it was two years ago at the trough of the national recession, and despite high unemployment, job vacancies are low.

Lynn Reaser, Chief Economist for First Interstate Bank, and **David Hensley**, Director of the UCLA Business Forecasting Project, corroborated Arnold's linkage between the California and national economies by noting that, in fact, California has never been recession-proof. Contrary to popular belief, since the 1930s, "California has followed the nation almost like clockwork," said **Reaser**.

Unlike **Arnold**, however, **Reaser** and **Hensley** think California's current economic problems will break that pattern. **Reaser** cited problems raised repeatedly during the Summit: long and costly permit procedures, over-regulation, burdensome workers' compensation system, and poor K-12 education.

Hensley saw California undergoing a "universal reassessment" that would replace the pre-1990 vision of the state with a more realistic one. California, with its many advantages -- from climate, geography, and Pacific Rim access, to a balanced economy, concentration of high technology industries, and an excellent university system -- has been a victim of its own success, **Hensley** argues. The state's incessant population growth, combined with "benign neglect" of our infrastructure and defense cutbacks resulting from the end of the Cold War, "implies a downward revision in expectations about future growth, which is affecting migration patterns, capital flows, real estate values, and expected income," he concludes.

Regardless of differences about the causes of California's recession, there was agreement that it has not run its course. **John Wilson** noted that 370,000 California jobs have been lost due to downsizing, and we are only halfway through the downsizing process. **David Hensley** predicted further job losses of 30,000 in defense and 25,000 in government in 1993, with no sector emerging to offset these losses. The three conditions necessary for California's recovery -- an upturn in housing starts, an upturn in the national and international economies, and a stronger consumer sector within the state -- are not likely in 1993, according to **Hensley**. While **Lynn Reaser** predicts a small improvement in the state's economy in 1993, it will be led by Northern California. Los Angeles and Orange counties, which are hardest hit, may not begin to recover until early 1994.

As the Summit's initial discussion of the California economy concluded, **Assembly Speaker Willie Brown** introduced a special guest who addressed the Summit via video satellite. **President Bill Clinton** quickly illustrated the importance of a strong California economy when he declared, "I don't believe for a moment that America's economy can recover until California recovers."

President Clinton then cited the steps he would take to help California: a technology policy to provide incentives to new and existing high tech companies; incentives to encourage greater investment in education and infrastructure; an economic stimulus plan to create jobs; and tax revisions to improve the state's struggling real estate industry.

HUMAN FACE OF THE CALIFORNIA ECONOMY

One of the great dangers of economic analysis is that amid the numbers and sectors and trends, the human being can be overlooked. In an unvarnished assessment of who wins and who loses in a bad economy, **Jack Henning**, Executive Director of the California Labor Federation, detected "something amiss...in all of the testimonial statistics of unemployment that's almost dehumanizing." A number of other speakers sought to put a human face on the California economy.

Peter Ueberroth, chairman of the Governor's California Council on Competitiveness, and **Tapan Munroe** both noted the "evaporation" of $15-$20 per hour jobs that make up "the middle part of our economy." **Angela Glover Blackwell**, founder and Executive Director of the Urban Strategies Council, reminded the Summit that more than four million people in California, including 1.8 million children, live in poverty. In urban California, poverty rates among African-American and Latino children are much higher. The California economy is undergoing what **Munroe** called a "hollowing out" of both the urban poor and mid-range jobs.

Blackwell argued for long-term solutions when she said "...it is entirely possible that the nation and the state of California could have a short-term economic recovery and millions of people could be untouched by it." As **Stephen Levy** observed, job growth alone without long-term public investment will not erase two decades of flat wages and real economic decline.

Antonia Hernandez, President of the Mexican-American Legal Defense and Education Fund, called for an increase in the minimum wage, which has risen only cents in the last years. **Peter Ueberroth** agreed, telling the Legislature and the business community, "you've got to step up to that decision. Nobody can have the dignity to take home enough pay to do anything for their families or for their households at the current level of the minimum wage."

While these observers saw too little change in some features of the economy, **Assembly Member John Vasconcellos**, chair of the Assembly Democratic Economic Prosperity Team (ADEPT), saw great change in the California of the 21st century. In the year 2000, less than seven years away, 80 percent of the 21-year olds entering the California workforce will be women or persons of color. In 2010, fully two-thirds of California's workforce will be persons of color, while three-quarters of the retired population will be Anglo.

This dichotomy presents a great challenge to California. But in a global economy it also presents great opportunity, provided, as **Vasconcellos** stated, we "equip ourselves to live amidst change and thrive on it, not try to thwart it and wish it weren't here." **Blenda Wilson**, President of California State University, Northridge, observed that "[t]he U.S. may be becoming the first universal nation, with California leading the way."

Our economic well-being, if nothing else, demands that we come to grips with our diverse society. California will not maintain its current standard of living, much less progress, said **Tapan Munroe,** unless all Californians participate to their fullest potential -- which is another way of arguing for a strategy that increases both jobs and productivity. **Peter Ueberroth** also urged special attention to inner city residents and small business owners, who face the toughest obstacles and have few powerful defenders.

BUSINESS CLIMATE AND ECONOMIC DEVELOPMENT IN CALIFORNIA

Despite differing opinions about the impact of business climate on the California economy, there was little doubt that a variety of factors contribute to a poor business climate in the state. **Sam Ginn,** Chairman of Pacific Telesis, and **Michael Armstrong,** Chairman and CEO of Hughes Aircraft, among others, cited the most common targets for complaint:

- The state's workers' compensation system, which provides some of the lowest employee benefits in the nation while costing employers more than most states;
- Regulatory and permitting procedures that are long on paperwork and delays but short on simplicity and certainty;
- State tax policies, which create disincentives to investing in California;
- An educational system that fails to prepare young people for the workforce of the 21st century;
- A crumbling physical infrastructure that reduces productivity and increases the cost of doing business in the state;
- A health care system that pays too much for too few and leaves millions of Californians with no coverage except expensive emergency care;
- Lack of available capital, although the credit crunch is largely a result of overly-restrictive federal banking regulations.

Readdressing business climate issues is important for at least two reasons. First, as **Sam Ginn** graphically described, "it's a dog fight out there" for jobs, "not only among the states but among other nations as well." And even if California businesses were not being wooed to leave, the costs imposed on businesses -- and governments -- by these expensive and inefficient systems drains money from other activities that could improve productivity, increase wages and create jobs. For example, because so many Californians have little or no health insurance, said **Daniel Crowley,** Chairman and CEO of Foundation Health Corporation, we spend valuable dollars on emergency room care that could be spent on the state's educational system. **Enita Nordeck,** owner and President of Unity Forest Products Company, cited the costs imposed on her company by the state's workers' compensation program and compliance with timber harvest regulations.

Nor do the problems reside only at the state level. **Daniel Garcia,** Vice-President at Warner Brothers and former President of the Los Angeles City Planning Commission, described the maze of local permits, regulations, and fees that await commercial and residential development projects. Local infrastructure has been woefully neglected since the passage of Proposition 13. As evidence, **Henry Gardner**, Oakland City Manager, noted that Oakland has gone from a 30-year schedule of street repaving to a 200-year schedule, because the city cannot finance improvements.

The single biggest obstacle to local financing of infrastructure, according to **Gardner**, is the 2/3 vote requirement for local general obligation bonds. State Treasurer **Kathleen Brown** agreed, urging California to "liberate local governments from the yoke of anti-democratic two-thirds majority vote so that local government officials can make the case to their people about investment."

With few tools other than the sales tax to provide services and infrastructure improvements that will benefit the local economy, cities have turned on each other, trying to attract businesses from neighboring jurisdictions. Cities are "acting in a cannibalistic way and just churning jobs instead of creating new jobs," said **Barry Sedlik**, business retention manager for Southern California Edison. In doing so, they "send a terrible message to companies in California that the state doesn't have its act together."

The sheer multiplicity of local governing bodies leads to overlap and a lack of coordination that discourages economic growth. There are 6,700 local agencies statewide; in Alameda county alone, Supervisor **Don Perata** identified 14 cities, 22 school districts, 5 water districts, 4 fire districts, 3 park districts, 3 sanitation districts, 4 transit districts, 14 special assessment districts, plus 13 major permitting agencies -- "replete with confusion, rivalry, duplication, indecisiveness and, finally, cannibalism."

To help improve California's business climate, the summit heard an analysis of economic development strategies for California, as well as proposals for economic development. Although the state has a variety of economic development programs spread throughout state agencies, **Robert Friedman,** Chairman of the Corporation for Enterprise Development, warned that these "fragmented, top-down, small programs will never do what we need to do to galvanize the economy." He argued that economic development programs must reach a threshold size before they have any appreciable impact, and that California must develop policies and programs on a scale that reflects its nation-state status.

Brenda Shockley, Executive Director of Community Build Inc. in Los Angeles, also criticized the duplication and inefficiency of the state's economic development programs, and **Dale Hanson**, CEO of the California Public Employees' Retirement System, urged that the state's economic development programs be consolidated into one agency.

According to **Edward Blakely**, Professor of City and Regional Planning at the University of California, the state has an adequate number of incentives to encourage business development, but most states do a better job than California of targeting the incentives. **Blakely** made the key point that our competitor states are moving away from strategies which simply attract new industries, and are doing more to make regions of their states attractive to targeted industries. And in a state the size of California, he said, "[a]ll leadership cannot come from Sacramento...we need regional councils to form the basis for attracting industry and keeping industry in their locale."

Enterprise zones, which provide tax incentives to businesses to locate in targeted high unemployment areas, are one of the state's most visible economic development tools. But they have been criticized as ineffective, particularly when the employees do not come from the local community. **Peter Ueberroth** acknowledged this problem when he said that "any incentive you pass should benefit the person within the geographic area that you're trying to affect."

Jody Hall-Esser, the City Manager of Culver City, criticized the restrictions put on the use of redevelopment funds. She advocated expanding the authority of redevelopment agencies to allow their tax increment funds to be used for loans to purchase equipment, retooling for investments to meet air quality laws, job training, and child care.

Friedman and **Harley Duncan**, Executive Director of the Federation of Tax Administrators, both argued that state tax policy plays a minor role in economic development. According to **Duncan**, state and local taxes are not a significant component of a business's overall costs, and various factors, notably the federal deductibility of state and local taxes, undermine the effectiveness of tax breaks. He also noted that appealing tax incentives are quickly replicated in other states, eliminating it as a tool to attract business into the state.

This argument was turned around, though, by **Ray Rossi** of Intel Corporation, who reminded the Summit that 42 states give a partial or complete sales tax exemption on the purchase of manufacturing equipment. California's failure to do so, he argued, discourages businesses from expanding or relocating in the state, particularly because most states offer the exemption.

All tax incentives raise a fundamental policy question: do they favorably change a company's behavior or do they provide a windfall to a company that would have behaved favorably without the incentive? To ensure, rather than simply hope, that the state receives the desired benefits from the tax incentive, State Controller **Gray Davis** proposed that California follow the example of Singapore and New York City by requiring companies to enter into a contract with the state. The incentive would be provided only if the company showed that the benefits to the state, in jobs or state revenues, exceeded the cost to the state in lost tax revenues.

Businesses also have an important role to play in economic development. **Robert Friedman** compared California to Denmark, Germany, and Northern Italy and found that the general level of business practice is higher in those countries. They are "using the new technologies, managing a new way, investing in the skills of their work force." These countries also facilitate networking among small firms, to share information and productivity improvements.

William Ouchi, Director of the Anderson Graduate School of Management at UCLA, endorsed business networking by declaring that competition is a team sport. As examples, he cited the Japanese semiconductor industry, which began in the mid-1970s to undertake joint projects to create new process technologies that were too expensive for any single company to develop. Today those Japanese semiconductor firms are benefiting in the global marketplace from their joint effort. In the United States, the big three automakers, with the support of the U.S. Department of Energy, have created the U.S. Advanced Battery Consortium, to develop jointly new battery technologies essential to the commercialization of electric vehicles.

INVESTING IN PEOPLE

In examining how to improve California's business climate and make the economy grow, most Summit participants agreed with the assessment of **Sam Ginn**: issues like workers' compensation, permitting processes, and liability exposure need to be fixed, but "probably most important of all, [are the] lack of skilled workers and worker training programs that make people productive." **John Tobin** and **John Shoven**, in commenting on the national economy, both saw investment in education as essential to improving the economy. **Tobin** argued for a broad-based improvement in literacy and numeracy, and the availability of post-high school education, including non-college opportunities to develop skills not often taught in college.

Central to Tobin's non-college opportunities is what **Jerry Hayward**, Deputy Director of the National Center for Research in Vocational Education, called "a new emerging, exciting vision of vocational education." Far from the pejorative image of a "dumping ground for students who are unable to do quality academic work," vocational education, according to **Hayward**, "should act as a catalyst for a shift to an economy dominated by a skilled work force, one that maximizes both global competitiveness and individual potential in which firms use more skilled and productive workers and provide the appropriate incentives for education and training." In other words, a revitalized vocational education system is essential to the creation of a high-skill, high-wage economy.

Hayward cited several models for vocational education, including integrating academic and vocational education, integrating high schools and community colleges in a "tech prep" setting, and combining school and work experience. **Sam Ginn**, as Chair of the California Business Roundtable's Education Committee, proposed that schools implement a school-work program aimed at reducing dropouts. Students would receive help in the tenth grade in identifying a school-work program with a targeted industry, eventually going to school and working half-days in pursuit of a professional certificate.

Vari MacNeil, Executive Director of the New Vision Business Council, stressed the importance of targeting training efforts to exploit our strengths: "If we don't educate our workforce so that they can take advantage of these high tech jobs, we will lose out because California will never be competitive when it comes to wages. We have to be able to create a high skill, high wage manufacturing base."

Although many job training programs are sponsored by the state, local agencies, non-profits, and the private sector, they suffer some typical problems. The CEO of workforce L.A., **Xavier Del Buono**, observed that the state has many programs to fund occupational preparation and job skill training, but they are disconnected and fragmented into specific tasks, with no integration of service or effort. **Hayward** agreed, noting that other states have more systematic and organized workforce training programs.

Don Vial, Senior Advisor to the California Foundation on the Environment and the Economy, identified a more fundamental problem: "We do not have a corporate culture to invest in the training of front-line workers on any broad base." According to **Vial**, fewer than eight percent of front-line workers get any formal training after they are employed. He offered three recommendations to encourage training: revise employment training panel statutes to encourage ongoing investments in training; create an incentive in unemployment insurance for employers to invest in ongoing worker training; and move health care financing off of labor costs.

Apprentice programs would seem to be an excellent way to retrain workers in new technologies, said **Jim Green**, Executive Director of the Bay Counties District Council of Carpenters, but by and large, "[t]he apprenticeship has been ignored." A good apprenticeship program, like a good vocational education program, should provide opportunities to advance, to climb what **Hayward** and **Blackwell** described as "job ladders." Apprenticeships are important, said **Green**, to achieving the larger goals of a multicultural workforce and a strong, diverse economy: "If we don't train minority, inner city youth, we cannot have journeymen. We cannot have minority contractors."

A number of speakers criticized the K-12 education system for not providing the basic educational skills young people need to enter the workforce. Several employers described how they filled the breach, both for the benefit of their employees and the productivity of their companies.

Two years ago Tri-Valley Growers, a major agricultural processing cooperative, implemented a high-tech distribution system. To ensure that his workers could operate within the system, **Jim Saras**, CEO of Tri-Valley, budgeted $300,000 and built a learning-training facility to provide basic literacy education and more advanced technical education. The 600 employees who enrolled far exceeded Saras' expectations, suggesting that employers may not be aware of the extent of their employees' need and desire for training.

Most of **Enita Nordeck**'s employees at her wood processing plant were previously terminally unemployed -- no longer eligible to receive unemployment benefits. Her entry into worker training began when she realized that "many of the terminally unemployed were in that situation because they were convinced they were losers." To reverse that attitude and improve her business, **Nordeck** started an in-plant training program as well as a tutoring program at a local elementary school, with a credentialed bilingual instructor. She also created a scholarship for students with learning disabilities and also works with the community college to develop a curriculum that includes needed workplace skills.

The Summit also heard calls for the state's higher education system to broaden its vision, particularly in preparing students for the 21st century economy. **David Mertes**, Chancellor of the California Community Colleges, described two initiatives that integrate education with the workplace: many community colleges are now entering into contracts with local corporations for on-site instruction that is customized to the employees' needs, in exchange for covering the cost of the instruction; and 43 community college campuses have established small business development centers, to assist with technology transfer and export training for business owners and their employees.

In the past, the U.S.'s higher education system has responded to particular needs targeted by government, and there were calls to do so again. **William Ouchi** pointed out that the creation of the land grant colleges by President Lincoln in 1862 had a profound effect on the country's knowledge base and productivity: within 20 years, the number of engineers being trained in the U.S. quintupled. And the university-based system of agricultural extension services has provided invaluable technical assistance to farmers nationwide. **Blenda Wilson** called on California's higher education system once again to respond to contemporary public policy needs: as an advocate and resource for reform of K-12 education; in addressing contemporary social problems like AIDS, homelessness, cancer, and urban problems; and in becoming "models of humane, tolerant, and multi-cultural communities."

The public also needs to broaden its vision of what constitutes advanced education. According to **Jerry Hayward**, many students believe the only way to achieve success is through a four-year academic program. Students need an alternative, he said, that places value on "quality work, craftsmanship," and the state needs a strategy that says "it's okay to value work." **Jim Green**, scanning the Summit audience, declared "I think we have enough attorneys. We have enough economists to go around. We need workers.... there's nothing to be ashamed of with your hands. It's an honest way to make a living and I know a lot of people who go to college and make dishonest livings."

In light of substantial fee increases at the University of California and California State University, concerns were expressed that fewer low- and middle-income students would be able to afford the public higher education system. The President of the University of California, **Jack Peltason**, declared clearly, "[W]e do not want a system in California where the rich go to private schools and the poor go to public schools." To ensure continued and increased diversity in both public and private schools, **John Slaughter**, President of Occidental College, urged the Legislature to "make need-based student financial aid through the Cal-Grant program the first priority in the state's higher education budget."

INFRASTRUCTURE AND GROWTH

Along with investments in education and training and improvements to the state's business climate, investment in the state's infrastructure -- roads, rail, sewers, water treatment, energy, communications, schools -- emerged as a key component of California's economic recovery. State Treasurer **Kathleen Brown** listed three reasons why the state, through general obligation and revenue bonds, should invest in infrastructure:

- California's population growth has exceeded our infrastructure investment, reducing the quality of service and forcing us now to play catch-up;
- Infrastructure spending provides a short-term economic stimulus, putting "real people to work on real jobs that pay real wages";
- Public infrastructure investment stimulates private sector investment in its infrastructure, such as new equipment and process improvements, resulting in increased productivity.

As **Stephen Levy** pointed out, a high quality public infrastructure -- efficient transportation systems to move goods, quality education systems to provide a skilled workforce, commitment to quality of life -- "is among the principal determinants of business location decisions. "Public investment," said Levy," is a precursor to private investment." **Henry Gardner** probably had this fact in mind when he declared, "We need to do a better job of linking infrastructure with economic development."

Although almost $9 billion in voter-approved infrastructure bonds have been sold in the last two years, California's unmet need still is great. **Brown** advocated the creation of infrastructure banks and greater use of revolving funds and loan guarantees to leverage bond funds. She also urged legislation to guarantee that California workers and companies get first consideration for bond-funded jobs and contracts. **Vic Weisser**, Executive Director of the California Council for Environmental and Economic Balance, proposed a bond-funded state infrastructure bank to provide loans and grants to local agencies for infrastructure, housing, and natural resource protection.

Development of the state's infrastructure has a great influence on the patterns of growth in the state. With California's rapidly growing population, it is not surprising that infrastructure projects, both public and private, are often the subject of environmental regulations. According to **Gary Hunt**, Vice-President of the Irvine Company, the environmental regulatory process was designed to provide "a mitigation analysis to growth and to development," but it has become a mechanism to stop growth. Sonoma County economic task force coordinator **Glenda Humiston** acknowledged Hunt's point when she observed that "a lot of local communities are using cumbersome, costly, and difficult permitting processes as a growth management tool."

To environmental consultant **John White** of V. John White and Associates, the regulatory process sometimes is used as "a surrogate for not dealing with what we really need to deal with, which is certainty that we're going to clean up the air, that we're going to protect open space ... and agricultural land." **Weisser** concurred when he called for a growth strategy that provides "greater certainty. Certainty for both economic development and environmental protection." He noted the ongoing work of a diverse group of developers, labor leaders, environmentalists, housing advocates, and community leaders, to develop a state growth strategy with certainty as its centerpiece.

Without exception, business leaders at the Summit declared their support for protecting California's environment. Although none advocated weakening the state's environmental standards, the regulatory process received ample criticism. As **Peter Ueberroth** declared: "over-regulation is not the problem; it's the way it's administered.... we do not recommend any changes in environmental standards. We recommend changes in the way they're enforced and the way they're handled."

Daniel Garcia spoke for others when he criticized the overlap among regulatory agencies. And **Stephen Cohen**, co-director of the Berkeley Roundtable on the International Economy, urged a shift from prescriptive "command and control" regulations to performance-based regulations that encourage businesses to seek the most cost-effective means of meeting standards. The choice, said Cohen, isn't between regulation and no regulation; "it's dumb regulation versus smart regulation." To **Dennis Cuneo**, Vice-President of NUMMI Motors, the biggest problem is the adversarial relationship between businesses and regulatory agencies. Although he recognized fault on both sides, Cuneo took exception to those regulators that seem more interested in "getting" the regulated business than in working with the business on a "win-win solution."

At least one speaker provided evidence that the regulatory process may be changing for the better. **Adolfo Agramonte**, President of M&J Desk and Seating Manufacturing Company, described how in 1988, weary of high workers' compensation costs and regulatory battles with the South Coast Air Quality Management District, he moved his company from Southern California to Mexico. The Mexico experiment, however, "didn't go very well. We found different issues that affected our company: quality, efficiency, the cost of doing business in Mexico, transportation lead time...."

Finally, **Agramonte** brought his company back to Southern California, where he found the South Coast AQMD willing to work with him to solve the company's problems. The AQMD restructured his permits and helped him test alternative products needed in his manufacturing process. "Through the new technology and the restructuring of our permits," said **Agramonte**, "we will be allowed to grow three times bigger than...in 1988 before we left."

As the M&J Desk example illustrates, regulations can lead to adoption of new technologies that improve a business' output and productivity. **John Bryson**, Chairman and CEO of Southern California Edison, cited the economic benefits of California's tough rules on air pollution emissions from vehicles, which have made California the nation's spawning ground for electric vehicle research and development. As the industry develops, the California economy will reap the benefits.

CALIFORNIA'S FRONTIER ECONOMY

An emerging electric vehicle industry is only one example of the bright opportunities for California's economic growth in the 21st century, but it is probably the most prominent. Two major public/private partnership efforts are underway to develop this industry: Cal-Start and Project California.

Cal-Start, according to its Chairman, **Michael Peevey**, is a 40-member public/private consortium "seeking to develop a world-class, advanced transportation industry based on tapping the immense talents of the state's Aerospace and high tech companies." Its members include all the state's major utilities, Lockheed Corporation and Hughes Aircraft, as well as small- and medium-sized technology companies; the South Coast Air Quality Management District, UC Davis, the Lawrence Livermore Lab, and at the state level, the Energy Commission, and the Departments of Transportation and Trade and Commerce. Cal-Start is funded by $6 million of state and federal funds and $14 million in private sector money.

Project California was created by the California Council on Science and Technology, in the words of its co-chairman, **Roy Anderson**, to "create new industries and jobs by establishing California as a world leader in advanced transportation and related telecommunications systems...." The Select Panel of Project California, comprised of industry, labor, banking, academia, and government, identified areas of advanced transportation that California is best poised to develop, including electric vehicles, intelligent vehicle highway systems, advanced telecommunications, magnetic levitation (MAGLEV) trains, and fuel cell technologies.

The Metropolitan Transit Authority of Los Angeles will become a de facto applied research laboratory for the work product of Cal-Start and Project California. According to Los Angeles City Councilman and MTA Chair **Richard Alatorre**, over the next 30 years MTA will spend $190 billion to build out a multi-county transit system.

A number of other promising industries were represented as well. **Philip Quigley**, President and CEO of Pacific Telesis, and **John Goddard**, President and CEO of Viacom Inc., described the multi-billion dollar investment their companies will make in the next decade to create a fiber-optic telecommunications highway and an integrated interactive network of televisions, telephones, and computers. At Vandenberg Air Force Base in Santa Barbara county, local and state elected officials are working with Motorola and McDonnell Douglas to establish a Western Commercial Space Center to launch commercial satellites.

Two of California's most successful industries -- computers and biotechnology -- are still growing. Both industries, observed **Ted Hullar**, Chancellor of the University of California, Davis, were born at California's universities. However, they could not have succeeded without private research partnerships. **William Ouchi** reminded the audience that Silicon Valley's astonishing success should be attributed not only to the entrepreneurial spirit, but also to a joint effort with institutions of higher education and, by extension, the California taxpayers who supported them.

One of California's continuing attributes is the entrepreneurial spirit of its people. But California's economy has thrived when the government created a fertile field for growth, by investing in the state's people and infrastructure, and by entering into strategic partnerships to encourage promising industries. **Michael Peevey** challenged those who argue that "government has no role, ...can't do anything constructive" for economic growth, citing Cal-Start as only the latest example of well-placed government participation in an economic development partnership. **Dave Barram,** Vice-President of Apple Computers, stated flatly, "I don't believe we can have an investment in people strategy if we also have a laissez faire economic strategy."

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The final consensus reached at the Summit was on the need for action. A number of speakers commented on the similar recommendations of the Governor's California Council on Competitiveness, chaired by **Peter Ueberroth,** and the ADEPT Committee, chaired by **John Vasconcellos.** If 1992 was the year of the report, they said, 1993 should be the year for action.

CALIFORNIA ECONOMIC SUMMIT

BILTMORE HOTEL

LOS ANGELES, CALIFORNIA

CONDUCTED

BY

THE HONORABLE WILLIE L. BROWN, JR.

SPEAKER OF THE ASSEMBLY

OF

THE STATE OF CALIFORNIA

FEBRUARY 16, 1993

SPEAKER WILLIE L. BROWN, JR: Good morning to all of you. I am Willie Lewis Brown, Jr., and on behalf of the Members of the California State Assembly, the State Senate, and the Constitutional Officers, we have invited you to come and participate with us over the next two days in a discussion of the economy of California: Where are we now? How did we get here? What do we need to do to restore California's economy, the seventh largest in the world, to prosperity?

I will outline to you the process by which this conference will proceed, but before I do that, I want to recognize the extraordinary leadership we enjoy at the gubernatorial level. We are led by a young man who served as a Member of the California State Assembly for a few years, then as Mayor of San Diego, as a United States Senator, and in 1990 was elected to the Governorship of this state. He inherited huge budget deficits over the last two years and will face another funding shortfall in the third year of his stewardship of the State of California.

Ladies and gentlemen, to offer his views on California's ailing economy and how state government intends to respond to that challenge, I present to you the Governor of the State of California, the Honorable Pete Wilson.

(applause)

GOVERNOR PETE WILSON: Thank you, Mr. Speaker, not only for the other gracious remarks, but particularly the description "a young man." (laughter) It's been a while since I have been privileged to hear that; there were even times I resented it. With age comes **some** wisdom.

It is a pleasure to welcome all of you to this important meeting. I commend the Speaker and those who have participated in its preparation, and I commend the distinguished panelists who have made themselves available, because California's problems will require the best minds and the best participation that we can amass in order to deal with those problems successfully.

California has no higher priority today than restoring our economy to vigorous good health. We must do, as soon as we can, what is needed to assure that California's economy will grow and provide the jobs not only to put back to work the 800,000 Californians who have lost their jobs, but to employ all who are joining the work force with every high school graduation. Where do we find jobs? Why are we losing jobs? And what do we do to create more jobs? These are questions that must be on the minds of all of us.

Many of you have already devoted countless hours and valuable insight to those questions. We've had two years of studies, surveys, and speeches. The report by the Council on California Competitiveness is full of good ideas for improving our economy, and the report by Assemblyman John Vasconcellos and his ADEPT team (Assembly Democratic Economic Prosperity Team) is full of good ideas for improving the economy. The truth is, there appears to be a remarkably broad consensus on how to improve California's economy. What we need now is to translate agreement into action.

When Franklin Roosevelt addressed the nation in a much darker hour than we face, he said, and I quote, "This nation asks for action and action now. Our crisis can never be helped merely by talking about it; we must act and act quickly." FDR's call for action led to an extraordinary hundred days. Like it or not, and there were critics, Roosevelt's work with the 73rd Congress produced more major economic legislation than any session of Congress in our history, and we should settle for no less.

We must work together in common pursuit, because the fact is, there is much that we can do that should not take even a hundred days, though other reforms will surely take longer. We must begin now. The people have a right to demand results. When jobs are on the line, talk is not enough. And when jobs are on the line, party lines should not matter. We've made successful bipartisan efforts to protect California jobs last year and already this year.

Last year, after the tragic riots here in Los Angeles, leaders from around the state came together to create a revitalization zone, a place where rules and regulations take a back seat to jobs and opportunity. Leaders from every level of government have also worked together to save jobs at the L.A. Air Force Base and to bring new jobs to Norton Air Force Base in San Bernardino. But now we need cooperation and action on a much grander scale.

Let's begin where we already agree. The ADEPT Report, produced by the Democratic Members of the Assembly, recommended five specific items for immediate action. One of them was a package of tax incentives to promote business startups and growth, and I agree with those recommendations. That's why, in my State of the State Message last month, I outlined three specific incentives for small and growing companies.

First, California is the great incubator of ideas. The industries and jobs of tomorrow are born in the laboratories of our state today. To invest in those jobs, we should enhance the tax credits for research and development of new technologies and make it permanent. Small business led us out of the last recession by creating three-quarters of all job growth. Small business men and women will lead us out of this recession, too, if we can give them the tools to do the job.

So, second, we should enact a small business investment tax credit to encourage more investment in these small but powerful engines of job growth.

Third, for small employers to grow large, they need time to become profitable. Too many don't survive their heavy startup costs long enough to provide the jobs they should. They need our help to keep them in business through those tough, lean early times. We should keep the bargain we made two years ago and reinstitute the net operating loss carry forward.

Also, on the ADEPT Report's list for immediate action was reform of California's fraud-ridden workers' compensation system. ABC's Prime Time Live did an exposé last week; Sixty Minutes devoted a segment to it; before that, Reader's Digest chronicled the absurdity of our workers' compensation system. It has rightly been called a national disgrace. This system, meant to help workers injured on the job, today is costing us jobs. It cheats genuinely injured workers of decent benefits and drives business and jobs out of our state. It is estimated to cost California 60,000 jobs a year. California can't afford to lose those jobs, and we can't afford to waste any more time in righting the system. We must produce reforms that will, in turn, produce the kind of savings that can lower premiums for employers and increase benefits for injured workers.

We're also losing jobs because our economy is tied down by red tape. We have a tangled web of rules and regulations that forces business people to spend time doing paperwork instead of productive work. This is more than burdensome for business people who cannot afford high-priced lawyers and lobbyists to navigate their way through the bureaucratic maze; it can close their doors. An individual trying to open a business here in Los Angeles faces a bewildering 80 federal, state and local regulatory agencies with which he or she must file forms. This type of regulatory overkill is killing our jobs, and we must put a stop to it now.

Thus far, these comments have focused first, as they should, on steps that we can take and must take as a state to improve California's jobs climate. We recognize that all the world has been subjected to what is, in fact, a global recession -- not just a California downturn. Our competitors, while suffering the same economic downturn as we, have nonetheless been luring our employers away, stealing California jobs in the process. It's a fact we can't avoid: if there had been no recession, California would still be losing jobs, jobs we desperately need, to competitor states and nations which do not impose on employers the higher cost of doing business that are caused by California's workers' comp system; California's excessive regulation; California's taxes; and California's plague of lawsuits. These are self-inflicted wounds, and it's the shared responsibility of my administration and the Legislature to provide the cure and to do so at the earliest possible date, in order to stanch the hemorrhage of California jobs to our competitor states. We can't afford to lose those jobs for our people. But, even as we acknowledge our responsibility and the need for prompt action by state government to undo state-imposed disabilities, we must also press our case with the federal government for the help and cooperation which only the Congress and the national administration can provide in areas that are clearly and exclusively their responsibilities.

California, especially southern California, has already suffered the loss of over 200,000 jobs as a result of cuts by the federal government in defense and aerospace spending. Worse yet, there are signals that still deeper cuts, with more job losses, will impact California because of deficit reduction efforts by the new administration.

President Clinton, in his television address last evening, indicated his intention to address the needs of defense workers who have been thrown out of work, for which I thank him. He specifically mentioned that special attention would be given to defense conversion programs. The defense jobs California has lost are likely gone forever, casualties of a permanent restructuring we are compelled to accept as a cost of winning and ending the Cold War.

For the phrase "defense conversion" to have any real meaning, the jobs lost must be replaced through the creation of entirely new jobs, new products, and new services. New products and new services are California's specialty. California has been and is home to more cutting-edge innovations than all the rest of the nation combined. Just think of the whole industries we now take for granted that didn't even exist twenty years ago, ten years ago, even five years ago.

A young aerospace engineer, an adoptive Californian who immigrated from Hong Kong, left TRW last year. Today, that young engineer is a prospering entrepreneur, having created a remarkable modification of a semiconductor chip, which makes possible the scanning of the entire Encyclopedia

Britannica in 35 seconds. The success of this young engineer's startup company is all too rare these days, and not because his is the only good or marketable idea. California continues to abound in people with good, marketable ideas for goods and services. California continues to abound in men and women with the guts to take a risk in the marketplace. What are in short supply are lenders who are permitted by federal regulators to make loans to would-be entrepreneurs and job creators. Indeed, even the largest banks are forbidden to lend to solid credit risks. The resulting artificially aggravated credit crunch has been especially devastating to California.

Our state's economy is, or was, driven more than most by real estate development, which has now gone completely flat. Money is available for mortgage lending, but not for construction. The decline in real estate development in California has produced an alarming deflation in the value of real property assets, and the sharp drop in development activity has had a terribly depressing ripple effect. Moreover, wholly apart from land development, banks are not lending for any purpose except, of course, to the federal government. One activity by banks which is guaranteed to win the approval of federal regulators is investment in Treasury Bills. Recovery is being artificially constrained by the iron hand of the regulators upon lenders, who have money to lend, and who want to lend. The majority party now controls both the executive and legislative branches of the federal government. I respectfully urge that this conference make an urgent request of the President and the Congress that they shake the regulators by the scruff of the neck and tell them, in no uncertain terms, to let lenders do what they've been chartered to do. Let them lend money to small business men and women who are eager to create jobs and hire Californians who want and need jobs.

There is much talk in Washington of an economic stimulus package, which is to be advanced by the administration. What is most often discussed is a spending program of about $30 billion, with roughly half going for infrastructure projects and half for incentives for investors. I respectfully suggest that reform of the present, much-too-stringent regulation of lenders could pump into our economy, overnight, three times the money that is proposed to be spent in the economic stimulus package without the need to spend a single penny of taxpayers' money to achieve that greater stimulus to recovery.

Congress has reason to recall and to regret the savings and loan debacle. It clearly has a duty, as well, to prevent any similar fraud and bilking of innocent investors, but it can discharge that duty without tightening the tourniquet around the throat of an economy that is not bleeding, but starving.

Another federal responsibility also deserves our attention. In my State of the State Message, I urged President Clinton to follow his stated preference and support congressional ratification of the proposed North American Free Trade Agreement. I'm convinced that the free trade agreement will mean greatly expanded new markets and mutual benefit on both sides of the California-Mexico border. I'm convinced it will mean countless new jobs, both in Mexico and California. My confidence is shared most fervently by the President of Mexico. It is President Salinas' desire and his stated belief that the free trade agreement will, to quote him, "enable Mexico to export goods, not people." I share his conviction completely, but it will, of course, take time for the agreement to produce that effect. Until then, we must continue to press Washington to repeal the immigration tax it imposes on California.

Refugee and immigration policy is strictly a federal responsibility, and the federal government has an obligation to pay its costs. When it shirks that responsibility, it imposes an immigration tax on states like California, which have more than their share of refugees and immigrants. Today, that tax costs California billions of dollars a year, and, like any other tax, the immigration tax puts California at a disadvantage in the global competition for jobs.

At this point, Mr. Speaker, let me pause to give credit where it is due, and to express my personal gratitude to you and to the Members of the Legislature, and to our congressional delegation, for presenting a united, bipartisan front in support of our claim for federal reimbursement. All Californians must unite in pressing the federal government to pay the heavy costs it imposes on the state for immigrants and refugees and to repeal the immigration tax on California.

There are many other things that we must do to make California competitive, like expanding the loan program for small business and promoting the industries of the future, but the major initiatives that I've outlined here already enjoy strong bipartisan support. They can be acted upon immediately in Sacramento, and they represent a clear benchmark against which Californians can measure and be assured that this conference will, in fact, be what we all hope it will be -- the start of a great California comeback.

Of course, we know that a California comeback can't come just from Sacramento. It must start in the thousands of factories and farms, and small businesses spread across this great state. State government can't create the jobs that California needs, but we can create the proper climate. We can remove the barriers that prevent others from creating those jobs, and that should be our task. We must act now, without delay. If we have real action, then California can have the magnificent future that it deserves, the future I'm confident that it will have. California will be America's premier export state. California will be the cutting-edge in high tech innovation. It will produce today's jobs for us and tomorrow's jobs for our children.

Thank you for the effort that you're making to make that day come just as soon as possible. (applause)

SPEAKER BROWN: Thank you very much, Governor. You have covered the subject matter and raised the issues. For the next two days, we will hear from people from the academic world; small business representatives; representatives of industry; corporate CEOs; representatives from government, as well as the private sector; and members of the insurance industry, on both sides of the various issues. The students, as I would call them, will be the public policymakers who are here: the Members of the California State Senate and the Members of the State Assembly, along with the constitutional officers who will be participating.

This conference came about as a joint effort by many people. The membership of the Assembly met, and those of you who are in the audience are here as a result of legislators each having the obligation to produce one person -- one person, either with a story to tell, or with something to contribute in response to the challenges issued by the Governor. And then, of course, there are those who are the panelists, those who are the presenters, those who are the experts. I want to particularly thank the private sector and the academic sector for responding so promptly to our invitations.

As the Governor indicated, we intend to listen. We will conduct these proceedings as we do joint sessions of the Legislature. The presenters will offer their papers, hopefully in the period of time afforded. Panelists and others will interact with the presenters, and Members of the Legislature will be able, at any time, to interject themselves and participate. Republican and Democratic members of the Legislature have put this meeting together for the purpose of producing a work product that can be implemented quickly, as well as a work product that addresses the long-range approaches necessary to heal California's economy.

Obviously, there are national implications to anything that happens with the economy of California. To address that issue, we have tapped a gentleman who participated in Mr. Clinton's Economic Summit. He is an Emeritus Professor from Yale University, the recipient of the Nobel prize for economics in 1981, and, perhaps, one of the five most respected economists in the entire world. Nearly every economist I spoke to said, "You don't want me, you want the real article." Ladies and Gentlemen, Dr. John Tobin.

(applause).

DR. JAMES TOBIN: Thank you very much, Mr. Speaker, even for your hyperbole. (laughter). Governor Wilson, Members of the Legislature, it's a pleasure and honor to be here for this important meeting. My state is one-eighth the size in economic output of the state of California, but we have similar problems, in that we're also highly dependent upon defense. At the same time, all states, even California, are very dependent upon what the national economy will do, not just this year but in the next decade, and what national policies will be.

This is a big week. Most of us heard President Clinton last night give a preview of his State of the Union message, which will contain his economic package. His ability to persuade the country and the Congress to support that package and its success in aiding the economy may be decisive in determining the fate of his presidency and the progress of the national economy, and the California economy as well, into the next century.

President Clinton's plan is a courageous one, because he is confronting what I would call two macro-economic maladies, which happen to require exactly 180 degrees opposite medicines, or prescriptions, and he is trying to present and attain a strategy for dealing with both of them. One of them requires more spending by somebody: businesses, consumers, governments, foreigners, on American products and jobs. And the other one requires austerity and sacrifice. Let me explain what they are.

I will try to make the distinction between the short-run, acyclic problems that this economy faces, and the long-run, or secular problems, that the economy faces over the decades. The chart that has been put up has a smooth trend on it from 1950 to 1992, which is the growth of the capacity of the economy. Around it is a wiggly red curve that is sometimes above, but mostly below, which is the business cycles around the trend, and they are the result of demand-side problems -- not enough demand for what we can produce to utilize all our capacity.

Recessions and recoveries aren't always complete, such as the one we're in now. We've had a lot of them. The fact that we're in a recession now, or barely coming out of one, is what I meant when I said that one of the maladies we face would be remedied by having more spending by consumers, businesses, governments, by somebody, for creating jobs. Government policy to do that in its budget will be deficit increasing, not deficit reducing. On the other hand, a long-run problem that the economy faces is that the growth of capacity itself for productivity is too low. We would like to increase our productivity, not just this year -- it's really not possible to do that quickly -- but over ten or twenty years. Right now, in the chart I just had before you, the growth of capacity is 2-1/2 percent per year. Between 1950 and 1973, it was 3- 1/2 percent.

It is lower now, because our productivity growth is smaller than it used to be, and that's something President Clinton and everybody would like to improve over the long run. That's the secret to having higher standards of living and higher real wages, not necessarily more jobs, but better jobs, quality jobs and higher paid jobs, and that does require that we do more saving and investing, not more spending. More saving and investing, as far as fiscal policy is concerned, would suggest reducing the deficit. Indeed, that's the reason for reducing the deficit, to channel saving into investments, public or private, that will improve productivity and the growth of output and the capacity of an economy to produce over the long run.

May I have the second slide, please. This one shows business cycles, which were represented by the wiggly red curve on the previous slide, and the gap between capacity, or potential output (GNP), and actual output, and that's the red wiggly curve, and it goes up and down, as you see. The other curve is the unemployment rate, and you see that they move synchronously, so that when unemployment is high, the gap is high. But the gap between capacity and our utilization of capacity, our actual output, moves about 2 or 2-1/2 points for every point of unemployment. It has a much bigger amplitude on the chart, as you can see. Right now we have about a 5 percent gap; we're about 5 percent below our capacity. That accompanies being 2 points too high on unemployment -- 7+ instead of 5+, as we were as recently as 1988.

So, in order to catch up to potential again and to have a full recovery, we need to grow not only at the 2-1/2 percent that we're capable of because of normal growth in productivity and the labor force, but also to employ the unemployed and other people who are waiting for jobs but haven't been able to get them. So, to get back to full employment, that is something in the order of 5 or 5-1/2 percent unemployment. To reach that goal, say, in 1996, in four years, that'll take about 9 million new jobs for the nation as a whole -- additional jobs. There's 5-1/2 million for the new workers that come from the growth of the labor force, another million for people who've been discouraged and left the labor force, and 2-1/2 for unemployed workers now. That would get rid of the 5 percent gap and also of the extra 2 points of unemployment.

That recovery is not in the bag; it's not for sure. In spite of the good news that we've had in recent months, especially for the two final quarters of 1992, where growth was above the 2-1/2 percent, which is consistent simply with maintaining labor markets the same as before. But, we can't, I think, safely assume that that means we don't have to worry about slack in the economy and excess unemployment anymore -- that it will be taking care of itself. I wouldn't think it prudent to assume that.

We face a number of problems. The rest of the world is having a slump -- all over, Japan, Europe -- so the demand for our exports is down. The dollar, meanwhile, has been appreciating in value, because those other countries are trying to get their economies moving by lower interest rates.

That makes dollars more valuable to investors, but a higher dollar is not good for our exports, either. State and local governments, as we know, are in very bad financial shape and are pulling in their horns as much as they can. As Governor Wilson pointed out, the banks are still avoiding risks, because of their capital requirements and the history of bad loans in recent years.

So, especially in the labor market, I think we have unusually severe problems, some of which are also opportunities, as I'll try to explain. To show that our recovery so far is not up to par, let me have another slide. This slide shows a comparison of this recovery, in red, based on the official data, with the trough of the recession back in March '91, and the average of seven previous recoveries. As you can see, we're not anywhere near the speed of recovery that we've had in the past.

Next slide. The one I just showed you is in terms of output. This one is in terms of jobs, of employment, and there the comparison with the past is even worse. The red one is the past recoveries average and the one below is the history of jobs in this recovery, where actually unemployment is higher now than it was at the theoretical trough of the recession.

Another indicator that the unemployment rate, as it stands, is not a good measure of the weakness of the labor market, will be shown in the next slide -- please. The point is two-fold: Vacancies, jobs available for unemployed workers, are unusually low. That's the red curve in the diagram on the screen now. The blue curve is the overall unemployment rate. Normally, we would expect to have more vacancies at the unemployment rates we have now than we are actually experiencing, as shown by "Help Wanted" indexes, relative to the size of employment. If I can have the next slide, please.

Yes. The green measures the amount of unemployment that's due relative to the labor force -- permanent losses of jobs to layoffs which are permanent; they're not going to be reversed by re-employment. We know that's true, because of downsizing and defense cutbacks. It's true in California, true in Connecticut; it's true in the country at large -- to an unusual degree.

We've had some improvements in productivity in the last year, which are promising for the long run, because we want improvements in productivity. Meanwhile, they mean that we may be farther from getting back to high employment than we thought before; that is, that the room in the economy may be larger than the 5 percent that I spoke of earlier, so it takes a bigger effort. It would not be a good idea to take austere fiscal measures this year, or maybe even next year, because, in a weak economy, they wouldn't perform their purpose, which is channeling funds into investment that we need in the long run. Rather they might exacerbate the recession and cause additional unemployment, which would be counterproductive. That's why the Clinton package has some stimulus for this year,

$30 billion I'm told, and the deficit reducing sacrifices are deferred until next year or the two years after that. I, myself, think the $30 billion could be doubled, still not be excessive, and would be a better insurance against a fallback in the economy. It's like a patient who is going to need some surgery, but needs to be built up in strength and robust health before it's safe to have the surgery. That is the delicate and subtle combination of policies that the Clinton administration is trying to bring off, and we can all only hope that that will work.

Finally, let me say that as far as the stimulus package is concerned, the Clinton program includes good things -- public investments, education -- that will leave behind them permanent benefits in productivity and higher growth, and, in the meantime, will help to make the economy recover. Many of those public investments are things that are worth continuing in the longer run, the future, when it would be important not to pay for them by borrowing, but by taxes or other defense expenditure reductions.

Thank you very much.

(applause)

SPEAKER BROWN: Thank you very much, Dr. Tobin. And now, we have a second economist with expertise in how to mange the economy. Dr. John B. Shoven is from the Center of Economic Policy Research at Stanford University, and I've asked him to address the federal deficit and other long-term problems facing the national economy.

DR. JOHN SHOVEN: Thank you for this opportunity, Mr. Speaker, Governor Wilson, and distinguished panelists. It's a wonderful opportunity.

Last night, President Clinton discussed an economic crisis with the American people, and Jim Tobin has described what that crisis is, but I think a lot of people need to know "what's the crisis? What's the problem?" And, of course, the immediate problem, which Jim mentioned, is that we have unemployed resources, which are being wasted in this country, and we need to come up with a policy to fully employ our resources and to bring this economy to its potential.

But, there's a long-run problem, and Jim mentioned that as well, but let me emphasize it in particular. What is the long-run problem of the economy? Well, it's not inflation, and it's not even unemployment; it's not the stock market returns; it's paychecks -- at least for the American people. They can hear about productivity from economists and rates of potential growth, but from their perspective, the problem is that paychecks aren't growing. If you'll turn to the first slide, I'll show you why I believe this is the long-run problem.

We can see that real wages grew steadily from 1947 through 1973. Since 1973, both on an hourly basis and on a weekly basis -- the hourly is shown in the blue lower line, and the weekly paychecks in the red -- real wages have been falling. Paychecks have actually been falling -- and this is for blue collar workers, for nonsupervisory workers -- to the point now that real hourly wages are where they were last in 1963; real weekly paychecks are where they were in the late 1950s. So this is the problem, and we can call it a crisis, and I think it is a crisis, but it's a long-run crisis, and we've got to figure out how to get wages and paychecks moving up.

Now, economists really only know one reliable way to get wages to move up, and that is to provide workers with more tools with which to work. Tools in this context would be very broadly defined to include education, to literally have tools like computers and lathes, to have public infrastructure. To make workers more productive, we need to invest more in workers and in America.

President Clinton has been emphasizing the need for additional investment, but in order to make workers better off and to make the country better off, we need to pay for those investments ourselves. You can't get rich by making investments with borrowed money. So the corollary is, for the long-run problem, that we have to save more to purchase investments ourselves to make our workers more productive and to raise wages.

The first thing we need to do, then, is to save more so we can invest more. If you'll look at the second slide, you'll see that it shows that we haven't been saving enough. As a country, in the 1950s, '60s, and '70s, we saved about 7 percent of our income. By the late '80s, and still today, we're saving about 2 percent of our income. So savings are very low in the United States, relative to what we used to do, and relative to the rest of the world. As is well known, the Japanese save roughly 18 percent of their income; we save 2 percent of our income. One can only guess who is going to get wealthier faster, when one country is saving 2 percent, and one is saving 18. We have to save more, and that translates into more public savings and more private savings. More public savings means lowering the deficit. I would argue that over the next decade, this decade, we need to eliminate the full deficit.

We also need to encourage private saving. I think we could use some leadership on this to tell people why they need to sacrifice. They need to sacrifice to raise wages in the future. Sacrificing will mean both paying more taxes and deferring gratification by saving more in the private sector.

I said raising taxes. I have seen no plan to eliminate the deficit in this decade which doesn't involve additional taxes. On the other hand, once you buy into the problem that we need to save more, then I think saving more translates to consuming less. I think the kind of taxes that we need are suggested by the problem. We don't have too much income; we have too much consumption in the long run, and we need to save more. We need a consumption-based tax system. The additional taxes should be on consumption. The energy tax which is widely hinted to be a part of the Clinton package is the right form of tax. A higher gas tax would be fine. If we cannot control health expenditures, we're going to have to have real revenue, and that may translate to a value-added tax or a national sales tax. And the states, including California, better be aware of the fact that the federal government may be looking at the traditional tax base of the states, namely sales taxation.

From a long-run perspective, if we have to have taxes, I believe consumption is the right place to put those higher levies. I do think you want to worry about the progressivity of the package, and there's no reason that the personal income tax could not be changed in such a way that you could emphasize consumption taxes without making the tax system more regressive. One thing I think needs to be done by President Clinton and all political leaders is to explain to the American public why this sacrifice is necessary, and in particular, what the payoff is going to be. And here is what I think the potential payoff is to increasing savings and investment today. If, in this decade, we can return our savings rate to what it was in the 1950s, '60s, and '70s, we can employ those additional savings into domestically financed investment. We can have higher wages. Say, in the year 2020, when the baby boom generation retires, we can have wages which are 15 percent higher than they otherwise would have been. Now remember, wages have been going down for the last 20 years; wages are now where they were 30 years ago. If we could raise them 15 percent higher than they otherwise would've been, that's the payoff; that's why we're asking people to sacrifice.

So, I guess, my main message is that we have to devote more attention to the future, and that involves investment and savings, and we have to lower our consumption, lower the amount of the product of the economy that we devote to the present in the consumption. I think that's the prescription for the long-run surgery that Jim Tobin referred to.

Thank you very much.

(applause)

SPEAKER BROWN: Thank you very much. And now, panel members or members of the Legislature may wish to interact with these two presenters for a few minutes. If you have any questions of either Dr. James Tobin, whom I think I called "John" at least one time.

DR. TOBIN: No problem. It's happened before.

SPEAKER BROWN: Yes. It's the Baptist in me, Dr. Tobin. (laughter) There was no Jim the Baptist. (laughter) To start the panel discussion, I want to turn to my colleague, the President Pro Tem of the State Senate, David Roberti.

SENATE PRESIDENT PRO TEM DAVID ROBERTI: Thank you, Mr. Speaker. Dr. Shoven, you mentioned the need to increase savings and reduce consumption. Are you talking about certain kinds of consumption? And, isn't there a school of thought that says we can't get California moving again, unless purchasing power is increased; and doesn't that mean some kinds of consumption?

DR. SHOVEN: Well, certainly in the long run, we hope to increase purchasing power and hope to increase consumption, but in order to do that, one needs additional investment in savings to get wealthier, just like a family. The only real ticket to getting wealthier is to save money and invest it. The same is true for the state or the country, for that matter. We want to devote more of our product to investment, and I would suggest that California should lead in producing the investment products that the country needs, rather than emphasizing consumption.

DR. TOBIN: Could I comment on that?

SPEAKER BROWN: You certainly may.

DR. TOBIN: I think what John Shoven is really speaking about is what we should do when we are back at full employment and are not 5 percent below capacity. Any recovery, which we're just beginning to have, which completes itself and increases output by 5 percent, let's say, above the normal growth of it, is going to have some extra consumption involved in it. The point is, and I would agree with John, that when we're operating at full steam, which we're not doing now, we should be investing more, and that's going to require saving more. Investing includes education and public investment, as well as private investment.

SPEAKER BROWN: The President of the University of California, Dr. Peltason.

DR. PELTASON: I hope it's not self-serving to ask our distinguished economists if they would elaborate on the education side of this investment recommendation that they gave, which I applaud.

DR. SHOVEN: Well, I think the studies I've seen show that the returns to education are very high, and in fact, have been going up, particularly higher education. The gap between the salaries of the well-educated and the less educated has been growing. As you know, in California, we've been slipping in our standing, relative to the other states in terms of education, so I think education is a key part of the additional investment that we need to make in the future.

SPEAKER BROWN: Mr. Saras.

<u>MR. JIM SARAS</u>: Let me comment on the education side of the question you raised. Our organization, Tri-Valley Growers, is an agricultural-based cooperative in California; we process fruits and vegetables. Some of our labels are S&W Fine Foods, Libby, Red Pack, and Oberti Olives, to give you a bit of our background.

Some of the actions we've been taking at our organization are in the realm of education. About two years ago, we were moving to a more high-tech distribution system. We have 40-plus warehouses, and we have to coordinate deliveries. And so, knowing that we were going to more sophisticated systems, and knowing that some of our employees really didn't have the basics -- were unable to read and write -- we offered to help. When we mailed the offers with our paychecks, we fully expected a few of our employees to come forward. In any event, about 600 individuals came forward and asked for assistance. We then had to put $300,000 into the budget; shortly thereafter, we constructed a learning-training facility, and we have gotten volunteer tutors and people who are willing to take time to assist, but it all gets caught up in the equation which says you have to have a smarter work force. We were prepared to help them, not understanding the magnitude to which it would come, but we're very supportive of it. What I want to say is that education could very well be the key to keeping California and the U.S. competitive, and that's one ingredient I think has to be addressed, and I would fully support efforts in that area.

DR. TOBIN: Mr. Speaker, may I?

SPEAKER BROWN: You certainly may.

DR. TOBIN: I think a recovery such as we're trying to sustain and complete right now, is an occasion for making some investment expenditures by government, as well as by the private sector. Part of the Clinton package is to have an investment tax credit for the benefit of private investment, and I believe infrastructure and educational investments at the same time. It would be counterproductive to say we shouldn't do those things now, because they increase the deficit. Right now, they both increase the deficit and increase investment, which is what we need to do for the future. I particularly hope that President Clinton's plans for paying for post-high school education by advancing the funds to all students, not just for college, but for other programs, such as the one that was just being mentioned, doesn't fall victim to a misplaced concern about deficit spending. It should be carried on.

If we have an investment-driven recovery, that would be a help toward John Shoven's goals, not be against them, and it would be a big contrast to the recovery of the 1980s. There's been a lot of bragging about that recovery, but what was the fuel for that recovery? Tax cuts for supporting affluent consumers and a build-up of defense, which may have been necessary or may not, but let's assume it was necessary. Still, it was not building the long-run potential of the economy for civilian production.

SPEAKER BROWN: I see one of our Members who wishes to be recognized, Marguerite Archie-Hudson, Chairperson of the Committee on Higher Education.

ASSEMBLY MEMBER MARGUERITE ARCHIE-HUDSON: Thank you. I would just like to ask both Dr. Tobin and Dr. Shoven to comment a little bit on what they think should be the priorities for higher education in educating for the new economy and the new work force. Would that be educating all Americans to a higher level of basic literacy, on the assumption that they can then move into the work force more prepared? Or would it be educating for specific needs of the economy?

DR. TOBIN: Well, I think I have a preference for concentrating on educating to a higher level of literacy and numeracy a large fraction of our citizens, and getting a post-high school education available, not just in colleges as it is now, but in other skills that are not so common in colleges. I think that would be the thing to do, but we do have to have a basic knowledge in our workers, because we can't predict exactly what technologies they're going to have to have command of in the future.

DR. SHOVEN: I want to respond to that as well. You know, California now requires a semester of economics for all high school students in order to graduate, and I applaud that, and think we should emphasize literacy in economics for all Californians. They should be able to understand the kind of discussion we've been having today about the return to saving and investments, and the cost of idle resources, and the necessity to stimulate this recovery. There's no reason that this shouldn't be taught and understood by all high school students in California.

SPEAKER BROWN: Drs. Tobin and Shoven have offered us their perspectives on the nation's economy. Dr. Bob Arnold, who will testify now, is the co-founder, along with Stephen Levy, of the Center for the Continuing Study of the California Economy. I've asked Dr. Arnold to address the state of California's economy and offer any observations or suggestions that he may have for the public policymakers who are here today. Dr. Arnold.

DR. ROBERT ARNOLD: Thank you very much, Mr. Speaker, Governor Wilson, distinguished panel members.

I think we're very lucky to have the explanation of the U.S. economy that's been provided by Dr. Tobin and Dr. Shoven. My explanation and my assessment will be in the context of the analyses they have provided.

I wonder to what extent people really think it makes any difference how you explain this economy; how you assess why we lost jobs; how you assess what our future is going to be with investment. Well, let me tell you at the outset, that a lot of economists will talk here, and some of them will undoubtedly disagree with the analysis that Steve Levy and I have. But I want you to know that if our assessment is correct, it has profound implications for policy.

Mr. Speaker, you mentioned, right at the beginning, that people say that California used to be recession-proof. This curve shows that we've gone along with the nation. We had 11 percent unemployment in 1982. The reason people said that we were recession-proof is because we recovered so fast. The reason we recovered so fast was because the nation recovered quickly, and we had the kind of economy that could go along with it.

The next chart will show that we also faced the long-term problem of flat average real wages, the kind of jobs that we have here. We're a higher income state, with higher productivity, but we have been flat along with the nation. Now Steve Levy, my colleague, will talk about that this afternoon, but I'm going to try to concentrate and give you an explanation of why we have lost some 700-800,000 jobs. Why has California lost those jobs? The next chart will show you, in summary, what I think is the analysis. The bottom bar is total job loss. The next bar says 40 percent, and that's directly because of the national recession and slow nonrecovery that Dr. Tobin explained.

The next bar represents jobs lost in California beyond what's attributable to the national downturn. You will see on the next chart that we have 40 percent job loss due to recession and nonrecovery (30 percent of the total jobs); 55 percent of the additional jobs lost are in construction and construction-related industries.

The next block is defense and defense-related, because of our disproportionate share of defense spending. And the last, less than 9 percent, and I even think that's high, is due to other causes. Now, that's not saying for a moment that other causes are not a problem. It is saying that, if you are concerned about why we lost jobs, we lost jobs in this state because of the national recession and nonrecovery, because of a construction cycle, and because of defense.

Now let me show you in the next chart the kinds of jobs we lost because of the national recession. Here you can see in our basic jobs, construction leads in this, defense is the other high bar and then down below is the manufacturing. We lost over 30,000 high-tech jobs because of the national recession, but this isn't all. This job loss was multiplied by the drop in income, the drop-off in retail sales, and the drop-off in business services and other types of services. That multiplies into a total of over 300,000 jobs lost for this reason. The next chart shows the multiplying effect of the drop-off in income because of our basic jobs.

Now let me elaborate for a moment as to just why we lost the additional jobs. The first problem area is construction, and the reason for that is a classic one in California: we have a more volatile construction cycle than the rest of the nation. We are caught now in a deeper construction slump, which accounts for about 200,000 additional jobs.

The next big category is defense, which, as I've said, when you multiply it out it will hit probably 150,000 jobs. Finally, other explanations account for about 30,000 jobs. So, I would return to the chart. It is my assessment that, if you're going to explain the job loss since May of 1990 by the national recession, it's 40 percent; if you're going to explain it by construction, additional construction, it's 30 percent; if you're going to explain it by defense, it's about 21 percent. Less than 10 percent of jobs lost can be attributed to other causes. As serious and as tough as those problems may be, they do not explain the job loss in California. Now what's the result of this in terms of policy?

Clearly, Mr. Kantor's here. I hope he takes back the message that California is intimately wrapped up with the nation, and if we don't have a strong recovery in the nation, California cannot recover, and that's the primary issue. What does the State Legislature have to do with this? Well, the Governor, this morning, talked about all the things you could do to influence national policy, and I would urge that the Governor add to that a strong statement, that California, New York, New Jersey, Connecticut, Massachusetts, Texas, all these states need a strong economic recovery to make it.

The next issue is housing policy. I would suggest that the State Legislature and the Governor have a real job to do, and the Governor mentioned this in terms of trying to loosen up credit in terms of housing. If we get a turn in the housing cycle, along with a strong economic recovery in the nation, California could really experience a very strong recovery.

The last point is what President Clinton mentioned last night. He said he's going to have an Economic Stimulus Package of investments. Why can't California participate with the rest of the nation in getting investment projects that can help every district of California? I think that's the focus that would come from our assessment, Mr. Speaker.

Thank you very much.

(applause)

SPEAKER BROWN: I've asked John Wilson, Chief Economist for the Bank of America, to give his perspective on the California economy.

MR. JOHN WILSON: Thank you, Mr. Speaker and distinguished members of the panel. It's indeed an honor to address this group and to take what Dr. Tobin and Dr. Shoven have said about the national economy and relate it to those of us who live in California.

Bob Arnold has set the stage. I would like to continue that discussion and suggest to you that when we look at the California economy today, we will be looking at it from two different perspectives, which are really focusing the debate. One perspective is that the California economy is basically suffering from the national recession, defense cutbacks, and construction, and that with a turnaround in those areas, the California economy will recover. That's the position we heard from Mr. Arnold.

A second is that the California economy has far greater structural problems than we can see. It is a situation not unlike what New England has gone through, or the energy states of Texas and elsewhere. According to this view, we will not participate to a great degree in the national recovery. Indeed, the recession in California may be drawn out for another two or three years. Those are the polar views.

I would suggest to you today that the truth lies between those two extremes, that when you look at the California economy, you see that we are being hit by three major structural forces. Number one has already been referred to -- we read about it daily in the press -- the downsizing problem. If we analyze the basic structure of the California economy, we will find about one-half of the entire labor force in California, one out of every two workers, is in a job that is downsizing in an industry that is going through adjustments, either because of overcapacity, because of increased competition, because of a shift in defense priorities, or because of budgetary problems of state and local government.

Another group of workers are in strong cyclical industries that had a large loss of jobs because of the national recession, but are expected to recover. A third group of workers are in industries that are weakly cyclical, who did not have a strong job loss and will also recover. The final group are in the growth industries.

The second structural problem affecting California, which has not been mentioned so far, is the rapid growth in population since 1988, relative to job creation. In the past, in California, we've added jobs almost proportionate to our population growth, what we call the "dependency ratio." For every job we added, we added about two dependents. Since 1988, we've added about 40,000 jobs and 4.7 million population. The fiscal crisis that we face today, indeed, is largely explained by the fact that the dependency ratio is no longer 2-to-1, or 3-to-1 but, since 1988, is 50-to-1. Every new job added since 1988 has had to support an additional increase of 50 in our population.

A third structural problem impacting the California economy, in my judgment, is the fact that we have not invested in our economy. You've heard a lot about that. And, indeed, we have treated the California economy with what might be called benign neglect. We have created an environment that is not conducive to investments, an economy that is not conducive to creating jobs. You heard the Governor discuss those issues. I would agree with that analysis.

These structural problems have been exacerbated by the national recession. Indeed, California has accounted for one-third of the total jobs lost in the nation since the recession began.

There are three questions I want to leave with you this morning:

Number one: Is the California economy so structurally different today that, as we go forward, we will be in a long, drawn-out recession?

Number two: Or, is our economy basically a reflection of the national economy, so that we can expect our economy to respond to the national recovery?

Number three: Given a national recovery, how many jobs will this add to the California economy?

Finally, I will conclude by showing you our projections of how rapidly California will recover in terms of jobs, given both the national recession and the cyclical problems, the structural problems, I've talked about.

Slide No. 1 shows the actual job loss. I will simply cover this in the categories I have mentioned: downsizing, cyclical industries, and growth industries. As you can see, in all categories, California has suffered inordinately more than the United States. And, indeed, the downsizing and the adjustment of the California economy to the national recession has been far greater.

Let's look at Slide No. 2. What this shows is the proportion of our labor force in those four categories of industries that I've talked about: downsizing, strong cyclical, weak cyclical, and growth. The interesting point is that California is not significantly structured differently than the U.S. We do not confront a New England problem, a Texas problem. And, indeed, we have 46.4 percent of our labor force in the downsizing category, while the U.S. is at 45.8 percent. It is almost identical. True, there's some variation from one region of California to another in that regards. But the interesting thing in Southern California -- Los Angeles, Orange County -- is that the proportion is the same as for the nation. There has been a lot of focus on whether the California recession is a Southern California phenomenon. Indeed, it may have been, but also, the dynamics of the Southern California economy have made the adjustment far greater for the rest of California and certainly for the rest of the nation.

Question 2 is, how fast and responsive is the California economy to a national economic recovery? Let's turn to Slide No. 3. It shows you our estimates of how many jobs we would add in California if the U.S. economy grows at 4 percent. We would add 583,000 jobs over the next three years. If we have moderate growth, a 3 percent growth, 434,000; weak growth, 2 percent, 211,000. These numbers back the argument that Dr. Tobin made earlier that a strong recovery, indeed, will create jobs in California, and you can see the impact on how important a national recovery is to California -- the difference between 200,000 jobs created and 583,000 to 600,000 jobs created.

Finally, let me conclude. How long are we going to be in the recession in California? How fast will we catch up with the rest of the nation? How fast will we get these problems behind us and start moving forward and building a stronger economy in the future?

If I could see Slide No. 4, please. What I show you there is that we've had a 576,000 job loss when you look at the institutional survey. A more accurate figure would be 750,000 jobs lost, 370,000 due to downsizing. We're about half way through the process of downsizing in California. That means the labor force has about another 12 to 24 months before we're finished. That is why, in California, we will be lagging behind the national recovery.

Look at the second line, strong cyclical industries as well as growth industries. If the national economy recovers at the modest rate of 3 percent or higher, at 4 percent we'll add 800,000 to a million jobs. That would be our share of the 9 million figure that Mr. Tobin gave earlier. That is critical to making the turning point as shown at the bottom. The turning point says that over the past two to three years, we've been operating in an environment of recession and structural downsizing, a net job loss. Moving forward, we're moving into an environment of creating jobs on a net of 400,000 to 600,000. I would suggest to you that that creates a totally different economic and political environment in which we can design policies for the future. We are at the turning point. If we have the creative policy response by the political and business leadership in California, there is no doubt in my mind that California will return once again to a position of strength, providing the quality of life that we've become accustomed to and that we should expect for the future. Thank you very much Mr. Speaker.

(applause)

SPEAKER BROWN: Mr. Wilson, there is one area you did not cover. In the Governor's remarks, he referred to the problem of the unavailability of capital. Dr. Tobin also referred to what we euphemistically call the credit crunch. Are you the appropriate person from Bank of America or do I say this to Mr. Coulter?

MR. WILSON: Well, I think you have two representatives from the Bank of America and other financial spokespersons here in the audience. I knew walking up here as a representative of a financial institution, when I heard the comments, that I couldn't get off the podium without you pushing my button.

I think, Mr. Speaker and members of the panel and audience, that when we look at the credit crunch issue, we have to put it in the context of the economic recovery. In other words, at the Clinton Summit Meeting, there was a comment made that if we simply reduced the regulations on banks, we'd have this explosion in credit that would solve the economic problem, not only for the U.S., but for California. I think that was an overstatement. What we see, and why we have a so-called credit crunch is a combination of forces that have already been talked about: Number one, the regulatory environment in the United States; number two, the credit capital requirements that are being imposed; and, number three, a weak economy.

You look at that combination, and that's what has led to the situation we have today. There's no doubt in my mind, as a banker, that we want to make good, solid investments in California and elsewhere. The return is greater. We don't want to simply pump the money into government treasuries. But we have to do that in a solid, strong economy. As I recall, as of five or six years ago, my hair used to be brown, before we went into the crisis at the Bank of America, and, overnight, it kind of turned a little silver on me. I don't want to lose it in the next go-around. So I would say, in summary, that the credit crunch is more indicative of the overall state of the economy. With a strong economy, you'll see the capital flowing back in.

SPEAKER BROWN: Let me now ask Angela Blackwell, from Oakland, California, the founder and Executive Director of the Urban Strategies Council of Oakland, to come forward. Clearly, the problem of California's economy includes a human equation. Mr. Wilson introduced that topic when he referred to the number of people who are dependent on the few jobs that have been created. Ms. Blackwell will expand upon this theme.

MS. ANGELA GLOVER BLACKWELL: Thank you, Mr. Speaker, Governor, and panelists. It is a pleasure to have the opportunity to talk about the human equation at this Economic Summit, because it is entirely possible that the nation and the state of California could have a short-term economic recovery, and millions of people could be untouched by it. If we don't pay attention to developing specific strategies to deal with those people who live in poverty, they won't benefit. And the numbers are large. Over 4 million people live in poverty in California -- over 12.5 percent of the population. Of that number, 1.8 million are children -- over 22 percent of our children. And in our urban areas, Black and Latino children are hardest hit; there we find poverty rates of 35 percent. But it's not just poverty. It's the threat of persistence that worries us most. We have had a change in occupational landscape, and we find that people who have little education and few skills have no opportunities. Without improving their educational capacity, they will not be able to recover, even if the economy recovers. But there are things that we can do about it. We can make smarter use of the investments than we're already making.

One of the things that we have done in this nation and in this country is a disservice to issues related to poverty, and that's by being comfortable with this notion of creating safety nets, that our investments in poor people ought to create safety nets. Well, the truth of the matter is, people are falling into nets and those nets are called Welfare, and Child Protective Services, and Juvenile Probation. But what happens is people dangle in these nets. They often dangle in these nets until they die, sometimes being tossed from one to another. We need to get away from that imagery.

Let me just share with you what we found in a study in Oakland, California. We took 8,000 students and compared them with 19 government programs. We found that of those 8,000 students, 62 percent of those were known to at least one program. For half of them, over 4,000, if they were known to Social Services, we could add on household members. So we had a sample of 4,000 households. We found that 82 percent of those households were known to two or more programs; 32 percent were known to four or more programs; and 15 percent were known to five or more programs. People are indeed falling into nets, but nothing is happening as a result of that.

We need to replace that imagery with steps and platforms and ladders that allow people to step up into economic opportunity. If we are coming in contact with families, we need to utilize those opportunities to put families on a continuum that leads to economic activity and self-sufficiency. We must do that with the resources that are already being invested.

But let's look at where we're not making investments commensurate with what we ought to do. For every dollar that we spend on prenatal care, we are able to save $4, and yet, we have 7 percent of the women in California who are getting late or no prenatal care. For every dollar that we spend on immunization, we are able to save $10, and yet we have over 40 percent of two-year-olds who are not immunized. We need to immediately step-up our investments in those areas. And, as we are thinking about how to utilize our resources more effectively, we must pay attention to education.

We are asking the public schools in California and in this nation to do what they have never done before -- to educate all of the children. While we ask them to do it, we are also asking them to do it with fewer resources than they have had, and we are asking them to do it without the partners that they need in order to be successful. Our educational system is in crisis, and we need to respond as if it is a crisis. It needs our immediate attention, our immediate resources, and our immediate analysis in terms of how to accomplish a goal that we have never asked the public schools to do before, but that we must ask them to do now. California's future will be bleak, if we do not allow those young people who are Black, and Asian, and Latino to have access to the skills that they need.

Lastly, we need to think about community revitalization in any package that looks at economic recovery. What we have are young people all across this state who want to connect with the larger society. They say they want to have contact with caring adults. They want to connect with the world of work. They want to be of service to their communities; yet we have gone through years of disinvestment in their communities. People will not develop a stake in a nation because of what the President says in Washington or because of what legislators say in Sacramento. They will develop a stake in the nation and in California's future based upon what happens in their neighborhoods. We have not been investing in their neighborhoods. We need small businesses to flourish in neighborhoods, so that children can connect with caring adults. We need to have parks and recreation and libraries, so that people can have access to those things that let them get a sense of what their future can be. Our future is tied up with the future of these young people. We have done them a disservice, and we must correct that through smart investment, stepping up where we know it makes a difference, and committing to revitalizing the communities that our young people inhabit. Thank you.

SPEAKER BROWN: Ms. Blackwell, thank you very much. The next presenter needs no introduction. He has been a part of two or three national administrations. He was on President Reagan's economic policy board, and he has been the prime spokesman for the so-called supply side economic theory. I've asked Dr. Laffer to give us his views on the national and state economy. Dr. Arthur Laffer.

DR. ARTHUR LAFFER: Thank you very much, Mr. Chairman. What I'd like to discuss today, if I may, is California's tax burden as it relates to the competitiveness of the California economy. In fact, I guess I'm one of those economists who believes it is very difficult ever to tax an economy into prosperity. In fact, one basic premise of economics is that, if you have two locations, A and B, and, if you raise taxes in B, and you don't raise them in A, producers and manufacturers are going to try to move from B to A. Just think of a California company and an Arizona company, separated by 40 miles and a very skinny state boarder. Now, let's imagine both of these companies produce, roughly speaking, the same products. Because they produce, roughly speaking, the same products, they have to sell those products in the U.S. market at approximately the same price. Now, imagine that California does what California did over the last three years. We have one of the largest tax increases ever recorded in the annals of state history. And, at the same time, Arizona cuts taxes. The question is, what can the California company do? It can't pass the tax increase forward through higher prices. It can't pass that tax backward into lower wages, lower supply costs, lower interest rates. It's got to literally swallow that tax. Now the question comes to the company. If you were going to expand one of those two companies, which one would you expand? Obviously, you'd expand the one outside of the state, in Arizona, and you would contract the one in California. If you owned stock in one of those two companies, which one would you prefer to have owned? If you owned stock in the California company, the price goes down. If you owned stock in the Arizona company, the price goes up.

Real estate values are very sensitive to state and local taxation as well. When you look at the specific history of California, it follows this model almost exactly. Prior to the passage of Proposition 13, and all those related tax changes, California's unemployment rate was one of the highest in the nation, and our real estate values were relatively low. After the '78 tax cut and all the other ventures that took place in the next couple of years, our unemployment rate dropped down to being equal to the national average, and, in fact, a little bit lower. We had a boom in California of incredible proportions. Then came June of 1990. Prop. 111 passed, with enormous tax increases following that, and you can see exactly what happened. California's unemployment rate skyrocketed relative to the rest of the nation, and California's economy went into the doldrums.

If you look at the record of other states, the record is exactly the same. Those states that raised their tax burden relative to the rest of the nation have lower growth, and their unemployment rates rise. In those that lower their tax burden and become more competitive, their unemployment rates decline and their growth rates increase. My view, Mr. Chairman, is that it's time in California to do another radical change in our tax code. My view is, I think we should get rid of all of our state and local taxes with the exception of a few fees, fines, and sin taxes. This means getting rid of the property tax, personal income tax, corporate income tax, payroll taxes, gas taxes, sales taxes. And, Mr. Speaker, in their stead, I would put two flat-rate taxes. I would put a flat-rate tax on personal, unadjusted gross income, and a flat-rate tax on business value-added. On the personal unadjusted gross income, I would make an exception for rent of primary residence, charitable contributions, and a few other small items there. If you did that, and made a revenue neutral tax, you could have a tax rate that could be revenue neutral with the current state and local taxes of about 6-1/2 percent on each. You would bring back competitiveness to the state of California in dramatic terms. Economic growth would be there. We would restore the relative prosperity of California, and, frankly, we would no longer have to worry about what the rest of the nation is doing to us. But we could be very proud of the contributions we would make to the rest of the nation.

Thank you very much, Mr. Speaker.

(applause)

SPEAKER BROWN: Dr. Laffer, I appreciate your coming. He received notice at the last minute and clearly, as a Californian and a person of great stature, has honored us by his presence. Panel members and Members of the Legislature who want to question him will be able to do so in just a few minutes. First, we will hear from Alison Lynn Reaser, the Sr. Vice President and Chief Economist for the First Interstate Bank. Ms. Reaser.

MS. ALISON LYNN REASER: Thank you, Mr. Speaker.

SPEAKER BROWN: Excuse me, Miss Reaser. I have a note here that a person named Bill Clinton, President of the United States, has called and plans to participate in this summit by satellite uplink at about 11:30 this morning. Go right ahead, please.

MS. REASER: Thank you, Mr. Speaker, Governor Wilson. My comments this morning will focus on four issues. First, to what extent can California look to the federal government for help in faster growth? Second, how much of our business climate is more than a rhetorical problem? Third, what lies ahead in terms of California's outlook? And fourth, how can we best affect that outlook?

First slide, please. The nation has now been out of recession for nearly two full years. California, meanwhile, remains in recession. As you can see, California is the only state in the west, other than Hawaii, now experiencing job losses compared with a year ago.

Next slide. California has never been recession-proof. This chart on the growth of personal income shows that, since the 1930s, California has followed the nation almost like clockwork. We've always gone down with the nation, but we've also come up with the country.

Next slide, please. This cycle has been different, in that California has lagged the nation in terms of recovery. Defense spending probably is the major reason for the gap between the national and state performance. To put aside for a minute the question of the gap, if the rest of the country were performing at a much higher growth track, could California be pulled up to a higher path?

Clearly, I think the answer is yes, but unfortunately, we do not have very much influence over federal policies. In terms of monitoring fiscal policies, we've very blunt tools, much too blunt to be used for regional problems. Efforts to heat up California would probably lead to over-boiling in certain parts of the country, such as the south and midwest.

Next slide, please. Fiscal policy is also constrained by the federal budget deficit. We saw the impact of the deficit discussed in last night's speech. Fiscal policy, monetary policy, is constrained by international financial markets. Efforts to spur much faster economic growth would probably push up inflation fears, interest rates, and jeopardize housing recovery, which is so critical to California's recovery.

Turning to the second issue, are there problems within California that we should be concerned about? Next slide, please. Consider the industries, the non-defense manufacturing industries, that can expand or locate outside of California. In the last four years, we estimate that California has lost its national share of jobs in 15 of 20 non-defense industries. I would contend that our business climate is a major reason why we have lost position.

Next slide. If we had just maintained our share in these industries, California could have saved more than 40 percent of the non-defense factory jobs lost during the past four years. The problems in California have been discussed to the extent that they've almost become cliches. Long and costly permit procedures, over-regulation, burdensome Workers' Compensation system, a K-12 education system badly needing reform. The common perception is that California's business climate is pushing firms out of California. But that is not the only source of our job loss. Our policies are also preventing companies from coming to California, discouraging them from expanding, causing some businesses to go out of business completely, and precluding new companies from being formed.

This, then, brings us to the third issue, where do we go from here? Next slide, please. This chart shows our forecast for the economy, and you can see signs of a small up-turn in California's economy this year. It will be led by the northern part of the state. Los Angeles and Orange Counties may not recover until the very latter part of this year or early 1994. As you can see, it will be a very modest upturn, with any job growth coming nowhere near offsetting the decline of the past two years. Yet I think that California will recover. We are not in a long-term decline.

Next slide, please. This brings us to my fourth subject, and that is that the rate of our recovery will be affected by the kind of policies we adopt. California has typically out-performed the nation. For the remainder of this decade, are we going to under-perform, match, or exceed the national growth rate? The key issue will be conversion of defense resources to other uses. I think that none of us really has the foresight to know exactly which industries will be the growth industries of the next century. At the same time, government resources are strapped and really preventing subsidies from being granted. But what we can do is to start to remove the negatives. Reform or reduce those government policies that are causing more harm than good. California, I think, will retain a very strong competitive advantage in terms of international trade, design, and technology. We can see a whole host of new products and technologies emerging. What I think is needed at this point is for a reduction of the obstacles to give California's economy a chance to improve.

Thank you very much.

(applause)

SPEAKER BROWN: Ms. Reaser, thank you very much. And now, from the University of California, Los Angeles, a man who heads the UCLA Business Forecasting Group. We have asked him to share his forecasts for the California economy. Dr. David Hensley.

DR. DAVID HENSLEY: Thank you, Speaker Brown. Good morning, everyone. I wanted to make two points this morning. First, is that we think the recession is likely to continue through much, if not all, of this year. Second, in my view, what has transpired over the past few years has important and, I think, even profound implications for the future.

First, let me quickly sketch our short-term outlook. Given the recent acceleration in the U.S. economy, it is natural to wonder whether the state finally is poised to join in the national recovery. In our best judgment, the answer is "no." California is about to take hits in two key sectors: in defense, where we're expecting a loss of 30,000 jobs this year; and in government, where we're expecting a loss of 25,000 jobs. At this time, no sector is emerging to offset these losses. The construction, real estate, and finance segments still are shedding jobs; manufacturing is down across the board; retail continues to be weak in the state. In fact, California was singled-out by national retailers as the one region of the country which did not experience a good Christmas season. Even the service sector has re-trenched during this recession. So, this recession has been very comprehensive in terms of job losses.

Our past forecasts have cited three necessary conditions for recovery in the state. First, an upturn in housing starts, which is needed to offset the ongoing declines in non-residential construction. Unfortunately, building permit data indicate that housing starts will ease slightly in the coming months, not grow. Second, we feel a pickup in the national and international economies is absolutely necessary, and that's been discussed extensively. This would allow California to increase its goods and services. Third, we feel a stronger consumer sector inside the state is also a necessary condition, because, by itself, an increase in exports is insufficient to bolster the balance of California's businesses.

Two of the necessary conditions that I have cited are not even on the horizon, and whatever boost California gets from the rest of the U.S. may be watered down by weakness overseas. Therefore, while our current forecast assumes a weak recovery, beginning in the fall of this year, we have explicitly warned that we think that the recession could easily spill over into 1994. On the other hand, an earlier recovery than we envision probably would be fueled by the emergence of a pent-up demand in the consumer sector, much as occurred in the U.S. in the second half of last year.

While there is disagreement over the short-term outlook at this time, the real controversy centers over the future. In trying to make sense of our recent history, I found myself left with two questions: why has this recession lasted so long; and, what does this episode mean for the future, if anything? My hunch is that the trauma of the past few years is prompting a universal reassessment of California. We're in the process of replacing a pre-1990 vision of this state with a new, more realistic one. Such a transition has important short- and long-term consequences.

To begin with, think back to the late 1980s, when the California economy was regarded as nearly invincible, and by some, as recession proof. This widely held vision was based on California's natural advantages, including its climate, geography, and Pacific Rim location, as well as its balanced economy, concentration of high technology industries, fine university system, and robust population growth. However, problems were surfacing, including the impending cutbacks in defense, complaints by business about over-regulation and rising insurance costs, plus concerns over the schools, traffic, crime, smog, and high housing prices. These problems were, at the same time, both symbols of California's past success and impediments to its future growth. More than any other issue, the run upward in home prices in the late 1980s symbolized the inherent contradictions in California's economy, pitting homeowners against renters, old-timers against newcomers, region against region, and current gratification against future competitiveness. While these problems were widely acknowledged, I think it is fair to say that the "bullish" vision of California prevailed at that time and tended to downplay them.

Since that time, the state has endured a stunning series of setbacks. The unprecedented string of natural disasters, the Los Angeles riots, last summer's budget crisis, and house prices, all bracketed by the lengthy recession. This inevitably has triggered a heightened awareness of the longer term problems which have diminished California's competitiveness against other regions of the country, outside of the northeast.

At this juncture, we're faced with two competing visions of California, which pivot on the question of whether the economy will grow the same way it used to, either outright or in comparison to the U.S. In one paradigm, this recession is fully explained by an unfortunate confluence of special factors, rendering it devoid of meaning for the future. Once the recession ends, the California economy will grow the same way as it did before. I disagree with this view, because I cannot see how this state, given its previous reputation, could undergo such a wrenching experience without suffering long-term ramifications. Instead, I believe that the events of the past few years are prompting a universal reassessment of California, replacing the old vision of the state with a new more realistic one.

This reassessment implies a downward revision in expectations about future growth, which is affecting migration patterns, capital flows, real estate values, and expected income. The revision is most evident in the markdown of real estate values. More generally, Californians probably feel poorer than they used to, because they think the economy will not be as strong as before. At the same time, California now is viewed as a less attractive place in which to invest or begin a business. I think the adjustment I've described could be the culprit behind California's long recession, which has continued almost two years beyond that of the nation. It also has implications for the future. Coupled with lingering fiscal problems in the state and further cutbacks in defense, it virtually guarantees that the pace of the eventual recovery will be disappointingly slow. Moreover, unless the pendulum swings back the other way and restores the old set of expectations, it also implies a slower pace of growth over the long term.

Thankfully, the broad representation at this timely Economic Summit ensures an airing of all viewpoints, so I have felt free to advocate my own point of view. If you believe that what's happened over the past few years means nothing for the future, then there is no urgency. Sit back and wait for the recovery to unfold, restoring California to its former glory. Otherwise, I urge you to seize the opportunity provided by this Summit to inventory California's problems. Develop a consensus on the state's priorities, which we now lack. Focus on those things that government can do, and use your leadership to persuade the public that it has a stake in seeing it accomplished.

Thank you.

(applause)

SPEAKER BROWN: We're now going to alter the schedule, just a bit, and take some time for the panel and for the individuals who are here as experts to interact and give us the benefit of their thinking and comments.

Now, lets go to the panel. I see an ex-colleague of ours from the California Legislature, now the head of LEARN (Los Angeles Educational Alliance for Restructuring Now), has pushed his button. Mike Roos.

MR. MIKE ROOS: Thank you, Mr. Speaker, and what a pleasure to be here. I enjoy listening to economists, particularly as I reflect on the rich history of California and wonder what have would happened in the 1800s if, after the Donner Party news began to leak out, there had been a panel of economists talking about California's future. As we all know, the thing that abruptly reversed the rapid drop-off of population which followed the tragedy of the Donner Party was the gold strike of 1849. And of course, all was forgotten.

We have had some good macro views; we have had some excellent analyses. I was particularly impressed with Ms. Blackwell, because that's what our organization, and what a group of us in Los Angeles, are trying to do -- make smarter use of investment, and understand that we are losing a huge number of our children as the educational system loses its relevance to them.

As a consequence, it propels this notion that we are going to be a low-wage, low-skill community that holds promise for us in the future. And what we have found, frankly, is that there is nothing that replaces the exercising of singular will. Hopefully, that is what we are bringing together under the auspices of LEARN, and what we in this community are going to do with respect to our public school system to move it from a system based upon a factory model to one that literally does address the unique needs of the unbelievable diversity of this community. The question is begged, though, in terms of trying to chart a will for California.

What can we do to break the cycle? I notice to my right and to my left, some rather major employers in some of the sectors that have been enumerated. People who, everyday, are making decisions about whether they are going to stay here or whether they are going to create more jobs in other states. And, I guess the question I have for them, along with the economists and other panelists, is what specific, detailed proposals would you recommend to the Legislature?

For instance, in North Carolina, I am told, if you want to relocate a business, that you can be picked up at the airport, immediately taken to the Governor's office; the Governor's representative or the Governor himself sits down with you and literally asks, "what are your skill needs?" Upon the articulation of those skill needs, the message then goes forth to a number of training site programs where people are recruited, and literally within several months, a labor pool exists for that company to enjoy all the benefits of relocation. To me, that is a very specific thing that California could begin to offer to employers who are thinking about leaving the state. I would assert that the biggest problem we have today is to stop the hemorrhaging. We've got to figure out how to hold onto the base we already enjoy, and I believe that requires very specific ideas of what businesses think they need in order to stay. How can we begin to break the cycle with very specific proposals, around which we can develop a bipartisan political will?

SPEAKER BROWN: The President of the State Chamber of Commerce, Mr. Woody Godbold, has his light on. He is the head of Zero Corporation and has had some personal experiences in relocating some parts of his operation. Woody.

MR. WILFORD GODBOLD: Thank you, Mr. Speaker. Let me tell you a story. About two and a half years ago, Zero was fed up with the business climate here in California. We were so fed up that we moved two of our operations to Utah. We surveyed nine states; we looked at Nevada, Idaho, Utah, and found the business climate in each one of those states very receptive to business. The businessmen were coordinated. They met you at the airport; they showed you sites; they discussed tax strategies; they did all the things that should be done to attract a business.

About three months after I made that announcement, I went to a Senate hearing up in Sacramento for the first time in my life -- my first civics lesson. They were talking about readjusting Proposition 13, so that businesses would pay higher taxes. I listened to businessmen talk about why they would leave California if that happened. One Senator, at the conclusion, said "I've been hearing this malarkey for 'nigh on to' twenty years, and nobody will ever leave California." There were three others on the panel who agreed with that Senator. I got up, absolutely furious, because moving a company is very, very difficult.

About a month later, at the California Chamber, we formed Red Alert, basically a task force to save California jobs, and looked at the Workers' Compensation system. We looked at the regulatory system; we looked at litigation, all of those things. After trying a grassroots effort, the Governor then appointed a Council on California Competitiveness, with Peter Ueberroth as its head. All of the problems that we found in California and detailed solutions are set forth in the Council's report. The Speaker and John Vasconcellos formed ADEPT, the Assembly Democratic Economic Prosperity Team. They went through the state, and sat down and talked to a number of people. They came up with specific solutions that are about 80 percent of what's in this report. So specific solutions for California are here. We can debate them for two days, but I think they are here.

Now I'd like to say that about a year ago, we were going to expand another of our businesses. We had the opportunity to move out of state or stay in California. One of the things that we needed was an immediate response to permitting, and in the past it may have taken about a year. I'm delighted to say the South Coast AQMB (Air Quality Management Board) had promised more prompt action in responding to permit applications, and, within six weeks, we received a permit and moved from North Hollywood to Pacoima. That is a sign that California is starting to move in the right direction.

What I hope to see as a result of this conference are more concrete signs in the Workers' Compensation and regulatory areas, so that we can move from our politicized base, so that we can move from being locked in concrete, to joining together for a solution. As Chairman of the California Chamber of Commerce, I've got to tell you that I do love California, and I want this to be the "Golden State."

MR. BRUCE LEE: Thank you, Mr. Speaker. Dr. Arnold, I have a question for you. We've heard a lot about Workers' Compensation and the negative effects of the system we have in California. We will probably hear a lot more before this conference is over. As a member of organized labor, I just want to say that I support reforming the Workers' Comp System, and I will work hard to see that it gets done in this session of the Legislature. Many of my partners in industry, however, seem to think that curing the Workers' Compensation problem will fix all problems in California. I don't share that opinion. Based upon your presentation, that our economy tracks the national economy, what would your assessment be of the impact of our Workers' Compensation problems on the larger problem with the California economy?

DR. ARNOLD: In the first place, it would make a lot of business people feel a lot better, because the problem really bugs them, as I said. If our analysis is correct -- and I'm not saying you shouldn't correct the Workers' Compensation System -- you would have a very marginal impact on restoring jobs in California. Compared, for example, to an investment policy, it doesn't even come close. Compared to the impact of the national economy improving, it doesn't come close.

You know, we're all talking about 3 and 4 percent growth rates. And yet, the U.S. economy, in every other recession except for '79-80, grew to recover at 5 and 6 percent growth rates. Here we are talking about 3 percent. You wonder how this huge state that got hit with two other things, construction and defense, may lag with a 3 percent growth rate.

People say, "Well, Bob, you're talking about the national economy, and we haven't got anything to do with the national economy. Let's talk about what the state can do." And so, all these specific proposals about business climate are really emphasized. There is a real negative to that in the sense that it misses the real issue. It misses the focus that the state administration, the Legislature must have to really get improvement in jobs. I named it. One, the national economy; two, housing; and three, investment.

I don't hear it. I didn't hear it in the State of the State speech by the Governor. Why not? These are the real problems of this state, and I disagree with David Hensley very strongly when he says that something has fundamentally gone wrong with this state. What has gone wrong is what I said happened to this state. Namely, we got hit with a very severe nonrecovery in the nation; we got hit with construction; we got hit with defense. That's why this state is down.

My last point would be, Bruce, that if you want to talk about a negative business climate, I think its very important that this assembly, particularly the business group and the Legislators, recognize that it is very important that we inform the investment world that we are not in this kind of trouble because of self-infliction, we are in trouble until the U.S. economy improves.

MR. FRANK CRUZ: Listening to all of the economists reminds me of the economists who were once asked to comment on a complex set of issues on the varying sea fisheries and the economists said, "I don't know anything about the Bering Sea fisheries, but I can comment on the fish." So I think each economist has his/her own fish to speak about. I don't mean to slight their positions or their perspectives. I do have a couple of points I would like to make, though, Mr. Speaker.

I think the first perspective has to do with the position I hold as Chairman of my company, which is the nation's first ever, Hispanic-owned life insurance company. We, like other businesses, in following up on Mr. Godbold's perspective and prescription, moved our company from another state to California, and I definitely do believe that this state really has to address itself to the small- and mid-sized companies that are really the engines that are driving our economy. Many of those mid- and small-sized companies are owned by women and minorities, and I think they do need a special kind of attention in order to foster and to generate that kind of business in the State of California and to bring us out of this recession here.

The other perspective has to do with the other hat that I wear, and that is as Chairman of the California Institute. Two and a half years ago, the institute came into existence simply because of the "anywhere but California" syndrome that has existed in the Congress of the United States. "Anywhere or anybody or anyplace but California" has hurt our state, and I submit to this panel and to the Legislature and to the Governor of the State of California, that the California Congressional Delegation began two and half years ago to collectively get its act together, if you will, to fight the loss of jobs and business from this state. We have the largest delegation in the history of this country, fifty-four strong. We are the strongest and the largest delegation, and I think we need to bring the delegation together at the congressional level.

We offer assistance through the institute to the Legislature of the State of California, and I submit to you, Mr. Speaker, that perhaps at the state level a similar type of institute ought to be erected and started to get that kind of cooperation. I think the voters of this state have spoken, as have the voters of the nation: they do not want gridlock anymore! They want movement, and they want some solutions. We realize that on the federal level, with the congressional delegation, there are Democrats and yes, there are Republicans, but I also submit that we are Californians first, and while there are many issues that we cannot agree on, there are many, many more that we can agree on to bring this state together.

Thank you very much.

(applause.)

GOVERNOR WILSON: Thank you, Mr. Speaker, and I would like to thank Frank Cruz, not only for an excellent statement, but also for his accurate recitation of a happy change in the functioning of the California Congressional Delegation. It is needed. They are aware of it. They are making the effort. I was enormously pleased with the bipartisan united front that agreed, in my appeal to them, to work with other states who are similarly situated with California and feeling the tremendous impact from costs that are imposed by the federal government in terms of refugee and immigration policy. Let me also say that when he began, I thought he was going to give the definition of the economist that I have heard. An economist is a man who knows a hundred and three ways to make love to a woman, but doesn't know any women. I'm sure equal time will be demanded by the female economists who are present, as well.

Let me seriously respond to a point made by Dr. Arnold. I am not putting him in the category of that definition of an economist, but I will say that it is obvious that we are, with his comments, in different circles. Just on an anecdotal basis, the people in this audience probably reflect what is more often my experience, and I think also that of my colleagues in the Legislature. If he doesn't think that Workers' Compensation is a problem for the small business men and women in California, then I submit, with all respect, he is living in splendid isolation there in Palo Alto. What I would tell him and others is that I think there is bipartisan sympathy on this score.

Those of us who are privileged to have been elected to office in Sacramento will tell you that the fun part of the job is being a cheerleader for California. In my case, the chief cheerleader, chief salesman. I have had that experience as a mayor. I am having it as a Governor. I believe in selling what I believe to be a great product: The state with a magnificent future. However, that in no way relieves me from having to focus honestly on those things that are truly wrong with our jobs climate.

In order to be convincing to people like Mr. Godbold, who know what the climate is in Idaho and Utah as well as in California, we are going to have to honestly focus on what is wrong. I am convinced that we can fix it. I am convinced that on both sides of the aisle there is a desire to do that, because it is very clear that all the good things we all want, the level of services, education for children, for public safety, that all of us desire, stem from one area, jobs. That is, putting enough people to work to bring home enough in their paychecks so they can pay those taxes -- without a tax increase, I might add -- pay those taxes and generate those revenues which, in fact, will permit the kind of investment in infrastructure and human capital that simply cannot occur if we continue experiencing falling revenues. Revenues fall when people are out of work. That much I hope we can agree on. I think we would all love to lead the cheers, but let's not deceive ourselves or, worse, deceive the people. There are things with our jobs climate that are self-inflicted, and that we can help by changing.

MR. STANLEY ZAX: Thank you Mr. Speaker, I want to congratulate you on calling this group together and on the morning's discussions so far. I would like to make one comment and ask one question of all the economists here.

I agree with the Governor's comment that all the small businesses in this state are very upset with the Workers' Comp system. I insure 20,000 of them. I can tell you that the number one solution to this problem does not require legislative reform. It requires the enforcement of existing laws against health care fraud. Fraud -- in health care and Workers' Comp -- is, I believe, the number one growth industry of this state. That is a sad comment. I, for one citizen, cannot understand how only the news media can find it, but the criminal justice system is AWOL.

The Legislature has held oversight hearings, has received assurances that the criminal justice system of this state was going to respond, and all we see is more investigative new shows and no action by the criminal justice system. Mr. Speaker, you have been outspoken in this regard. I urge you to call all the people in the criminal justice system back together, like Mr. Margolin did last year. This year, I urge you to include the Attorney General of the State of California. He has the principal responsibility to enforce the laws. I believe that businesses in this state are paying $2 billion dollars a year unnecessarily, and I think this ought to be put to an end.

We have listened to various scenarios about the future of California, most of which seem to suggest that in the next two to three years we're not going to make up the job loss of the last recession. We're only going to recover a third or a half or what-have-you of the jobs. I would like to specifically know, before I leave here, whether these influential and knowledgeable economists believe that some form of deficit financing, so-to-speak, on behalf of the State of California would help us do something extra, over and above what we might expect from the national economy. In other words, what can the budget resources of the State of California do, if anything, to accelerate jobs growth during the next two to three years?

SPEAKER BROWN: That's an excellent question, Mr. Zax, particularly in view of the fact that Governor Wilson and Senator Roberti and Members of the Legislature will be facing that dilemma within the next three to four months, as we try to avoid what David Hensley says was a disaster, and that's another budget stalemate.

MR. HENSLEY: I have one concrete idea about that -- that I could try it on you because you have a lot more knowledge about it than I. It seems to me that the state's voters, the public, has approved a tremendous amount of money for infrastructure spending over the next decade or two. This money's already been set aside. The revenue stream is the proof for this. And one thing I have been wondering is why state and local government in California have not attempted to speed up that spending to match what we are hoping that President Clinton might do at the federal level. It seems to me that this is not even a public policy decision. The money has been set aside, and it's really a matter of changing the timing of the spending. With 200,000 construction workers idled in the state over the last few years, it would seem to me that would be a very productive thing to do.

SPEAKER BROWN: Mr. Wilson, from the Bank of America, also wishes to comment.

MR. WILSON: Thank you, Mr. Speaker. I would suggest that California undertake what I would say is a four-point program that would really invest in the economy:

1. Invest in education. You have heard a lot about that. There is no doubt in my mind. There's no doubt in any economist's mind -- an investment in education is critical.

2. Improve the business climate. In my mind, there is no doubt that the business climate today has been a detriment to California. I'd add that as my second plank to the improved California platform.

3. Responsible political leadership. The last thing that California needs is another budget crisis/voucher situation like we went through last year.

4. Invest in infrastructure. Invest in the basics -- transportation, communications -- that improve the quality of life.

If California would undertake that four-plank platform, also in my mind, there is no doubt that business will follow suit with the fifth plank, and that is private investment, new R&D and worker training. Those are concrete proposals that I suggest on which we can build a stronger California economy. Thank you.

SPEAKER BROWN: Ms. Blackwell.

MS. BLACKWELL: Certainly, we want to invest in education; I have talked about that. But, we also must be very strategic, in whatever actions we pursue, to make sure that low-income people get included. And it won't happen, if we don't pay attention to it. We need to invest in education. When we are creating new jobs, low-income people can get those jobs too, but where we put them will make the difference. The kind of pipeline that we have from job training programs into the jobs will make a difference. We must accept that we don't solve these problems in California if we don't solve them for low-income people, and we don't solve them for low-income people, if we don't plan to do so. So, as we develop strategies, we need to think about where we put jobs; where we put job training programs; how we guarantee that low-income people of color get included. And lastly, I want to come back to emphasize this thing about revitalizing communities.

As we revitalize communities, that is no more than a different way of saying, invest in the physical infrastructure of our communities. And as we do that, we need to think about the kinds of activities that young people want to do, that people there want to have, so that we match the two together. (applause)

SPEAKER BROWN: Dr. Arthur Laffer.

DR. LAFFER: Thank you. Just a couple of things on using the idea of debt finance spending here in the state. I don't know if you are aware of the increase in debt usage in the State of California that's gone on since the early 1980s, but as of July 1, we had about a $130 billion worth of total debt, including about $20 billion worth of certificates of participation, which are under pretty heavy stress right now. But, my view is that the credit worthiness of California has probably fallen sufficiently and that, really, debt is not the real answer. The real answer here is to get control of spending. Frankly, what's the difference, if I tax the money from you, or if I borrow money from you with a promise never to repay. (laughter) The issue is not how they take the money from you; the issue is whether they take the money from you. What you really have to do is make jobs competitive here in the State of California, not increase spending and future taxes.

SPEAKER BROWN: Ms. Reaser, from First Interstate.

MS. REASER: In terms of specific plans for California, I think we already have two excellent blueprints for California's reform. One is the competitiveness report by Mr. Ueberroth, and the other is the in-depth report from Mr. Vasconcellos. Those two reports list in great detail the very concrete plans that California can implement, and can implement fairly quickly.

Secondly, in terms of the question, would deficit financing help California? I think we only have to look at the problems of the federal government, the problems of households, the problems of businesses, to answer that question. Basically, California is going to have to slow down its spending growth, to match the slower growth of our revenue and our economic growth that we are likely to see in the 90s. We are unlikely to return to the very rapid growth rate we had in the 1980s, even if we reform our economy significantly. We can, however, I think, ask the federal government for a better return on the tax dollars we send to Washington. Thank you. (applause)

SPEAKER BROWN: The President of MALDEF (Mexican American Legal Defense and Education Fund), Antonia Hernandez.

MS. ANTONIA HERNANDEZ: I have a couple of comments and some questions. We keep speaking of the worker, and one of the problems in California is the wages. Most workers, if they can find jobs, have to have two jobs. And I think we need to deal with raising the minimum wage. We want quality jobs, and we want jobs that afford people the opportunity of a decent living.

The other issue that hasn't been talked about, not only in California, but throughout the country, is dealing with an urban policy. We need a policy where people feel safe, where people feel they can live in a healthy environment. And I don't believe anyone has been talking about how do we do that. The greatest victims of crime are poor people, and we need to address that in the State of California. I think we need to deal with the business climate, but we also need to deal with the climate that poor people have to live in. And, unless those issues are addressed, I fear that what happened in Los Angeles will happen throughout the State of California and throughout the country.

SPEAKER BROWN: Supervisor Don Perata.

MR. DON PERATA: Thank you, Mr. Speaker. I've been sitting here, and it feels like a phrase from Taxi Driver -- "You talking to me?" There is something, I think, that local government needs to do. And, since we are about offering challenges, I would make this request of yourself, and the Governor, and Mr. Roberti.

It seems that in the seven years that I've been involved in local government -- by the way, if you want to have your hair go from brown immediately to bald, be in local government. You can skip the gray step. See? (laughter) We have other visuals, we don't have any graphs. (laughter)

It seems to me that job development and economic growth need to be done geographically. It can't be just by city, by county, by region, which is what we have been experiencing, because it is replete with confusion, rivalry -- and I don't mean competition -- but rivalry, duplication, indecisiveness and, finally, cannibalism. We are creating at the local level, because of the way the state's grown, an impossible situation for a positive business climate. To illustrate quickly: in Alameda County, we have 1.2 million people; a county government; 14 city governments; 22 school districts; 5 water districts; 4 fire districts; 3 park districts; 3 sanitation districts; 4 transit districts; 14 special assessment districts, that do everything from libraries to emergency medial services; plus 13 major permitting agencies. Now the problem is that there is no compelling responsibility to coordinate. We don't have to talk to each other. When someone like Angela Blackwell comes to us with a good idea, we need a convention center to get all the parties of interest together.

We, also, are very jurisdictional animals. All politicians know that. What we are doing is a little bit more important than what anybody else is doing, because that's why we're elected; that's the nature of what we do. There are 6,700 local agencies in California, spending $78 billion a year. Now, there does appear to be the money necessary to meet some of these problems. What we have to do is figure out a way of streamlining it. We have too many agencies that have decision-making authority and revenue-spending authority with no compelling reason to coordinate that.

In our county we have come up with a working model. I would like to see us give that model to the Legislature and the Governor, to road test it, study it, turn it up side down, and then see if we couldn't implement it on a pilot basis. To streamline the activities that are necessary to make it more positive for businesses to stay in regions. We cannot have 14 cities all going after economic development and job growth; we end up eating our own. So, I would like to make that as a challenge to the Members of the Legislature. (applause)

SPEAKER BROWN: Now, we will go to Dr. Barry Munitz, the head of the State University system. Dr. Munitz.

DR. BARRY MUNITZ: Mr. Speaker, thank you. Our 20 campuses are preparing three out of every four K-12 teachers in the state. What you might not know, is that we are also preparing one out of every nine K-12 teachers in the country. We have an extraordinary opportunity to make a change, if we can connect K through Ph.D., in the way that I think we can, at Fort Ord.

A year ago, Congressman Leon Panetta called, and with Assemblyman Rusty Areias, Senator Henry Mello, Assemblyman Sam Farr, and others, we went to look at the 28,000 acres at Fort Ord that were being closed, with the loss of many jobs. We have now put together a plan, which, in the next twenty-four months, will bring $135 million in defense conversion, real tax return dollars, back to California and provide jobs in that area to build a new campus. As a matter of fact, our basic problem at the moment is it looks like it could be known as CS-UFO. (laughter) But, where we have to keep our focus is, first of all, on the collective bipartisan Congressional Delegation. And, second of all, just as business is concerned about regulation, we are being regulated out of business and out of productivity. So, what I have asked is that the Legislature turn us loose at Fort Ord, and let us demonstrate to you, as we have so far, that, if held accountable, we can do business differently.

Up to this point, we have been able, with the help of the State Legislature, the Congressional Delegation, the Speaker, and the Governor, to bring back a lot of money to this state. We have begun to link all the pieces of the education system -- the University of California at Santa Cruz, the five local Community Colleges, and the K-12 District. Further, we will pay those workers, in part, with credit that will allow them to go to school, so that they will build their own campuses, physically, and they will earn their own way through -- much as the GI Bill provided earlier. So, that model is there. It can be done. You have done it so far. And, if you free us up to do our business, we will deliver back to you, many fold, that investment.

SPEAKER BROWN: You mentioned Assembly Member Areias by name, Dr. Munitz, and he has sent me a note indicating a desire to raise a question. Mr. Areias.

<u>ASSEMBLY MEMBER RUSTY AREIAS</u>: Thank you, Mr. Speaker. We have been bantering back and forth here, about the need for stimulus versus the need to create an environment that will attract investment and capital here in California. And my question, specifically, is given the enormous needs that we have in this state, and given the fact that our transportation system and our surface transportation and mass transit systems are really designed more for the needs of 20 million people than 40 million. Our water system is probably designed more for the needs of 15 million people. Mr. Peltason, and his good people at the University of California, haven't built a new campus in 30 years, and now we are developing capacity and denying access by raising fees. How can we solve our infrastructure problems, which aren't going to go away? And, when you talk about establishing a business environment that will attract capital, part of that is an infrastructure, which can move commerce around this state, safely and expeditiously. Business needs an educated work force that they can draw on. Do these go hand-in-hand? Can't we be developing jobs through stimulus, taking care of these needs that aren't going away, because right around the corner in California we are going to have 40 million people here?

SPEAKER BROWN: Let me ask Bob Arnold to respond to that.

DR. ARNOLD: Mr. Speaker. I think the gentleman really posed the right problem. People are talking recovery, and they are saying investment at the same time. Namely, as Dr. Shoven said quite clearly, and as Dr. Tobin said, we need a recovery based primarily on investment.

The second point is that, as President Clinton said last night and as I think he will say tomorrow night, his economic stimulus package is going to be at least half infrastructure spending. Therefore, the State of California should concentrate on getting its fair share of that kind of investment.

The third point is what will be brought out this afternoon: the state should find every way to increase the amount of infrastructure investment, as fast as they can. But remember, the deficit problem that you are facing is essentially a recession/non-recovery deficit problem and, therefore, recovery will do the most for you in restoring funds that you can then invest in the infrastructure.

SPEAKER BROWN: Assembly Member Tucker.

ASSEMBLY MEMBER CURTIS TUCKER, JR.: Mr. Speaker. We've heard so far today that wages are down to the level they were 30 years ago, that job creation and stagnant growth are the main causes of our failing economy today. I would like someone to explain to me why the nation, in general, and California, in particular, seem to be hell-bent on pursuing a policy that would be detrimental to the recovery of California -- the North American Free Trade Agreement (NAFTA)?

SPEAKER BROWN: Let me note that this evening's dinner session -- in fact, all of our meal sessions -- will be working sessions. We will be specifically discussing the North American Free Trade Agreement during dinner tonight. We will listen to an exchange between one of the authors of the agreement and its number one critic, Mr. Ralph Nader. In the meantime, is there any panelist or economist who would like to respond to Mr. Tucker's question?

DR. SHOVEN: I was the one who mentioned that wages are now at the level they were 30 years ago. I do not think we can improve wages by legislating higher minimum wages, or by protecting ourselves from foreign workers who may be more efficient than ours, at least relative to their current wage. The only way we can reliably raise our wage rates is to have more skills for our workers, and more tools with which to equip them -- tools to compete on a global basis.

I personally think the Free Trade arrangement with Mexico is a winner for California and for the United States, in that we would be misguided in protecting ourselves from their competition. I think both Mexico and the United States can win in this arrangement. Individual workers can lose or may lose, and we need to be ready to retrain them and give them the equipment with which to compete. But there will be more jobs in the United States and more jobs in Mexico if we proceed with this agreement. (applause)

SPEAKER BROWN: Ms. Reaser.

MS. REASER: I agree with Dr. Shoven that NAFTA will be of major benefit for California. I think there are tremendous opportunities for California companies to export both consumer and capital goods, as well as a whole variety of services, transportation, advertising, and consulting. I think this will be one of the most important benefits in California's future in the next five years.

SPEAKER BROWN: Ms. Jody Hall-Esser.

MS. JODY HALL-ESSER: Thank you. There have been several economists who've made comments today on the need for job growth for community reinvestment.

Redevelopment is not a perfect process in the State of California, but it has done some remarkable things. It is the only economic development tool that has been a statewide program for years, and we need to retain it. But in the special challenges that are facing us, I believe that we also need to expand the authority for redevelopment to do some specific things that are not presently being allowed or provided. That is: (1) to allow redevelopment agencies to make loans for equipment and retooling for capital investment to meet AQMD requirements; (2) to allow redevelopment agencies to use their funds for job training in association with local school districts and other education institutions; and (3) to also permit child care use of redevelopment funds. With these changes, we can continue to produce jobs and provide for the future of our local communities.

SPEAKER BROWN: Another Assembly Member, Delaine Eastin, has a question.

ASSEMBLY MEMBER DELAINE EASTIN: Yes, thank you, Mr. Speaker. I noted with interest Mr. Godbold's comments about the competitiveness report. And I did read the report, as I believe that most of us have. I also found the chapter on employment and education and training, which is not often mentioned in many circles, to be of great interest. It is virtually identical to the report the Business Roundtable produced four years earlier in 1988; it has the same recommendations. It calls for a longer school year. It calls for increased transition to work, especially for some of our non-college-bound kids. It calls for increased technology in schools. In short, it calls for a $5 billion annual additional investment in schools. That number ought to make some sense to most of you, because California is about $6 billion below what it would need to spend to get to the national average. So, I guess, I am looking for some will on the part of the business community, which I think has produced now two good reports, to provide the direction for California to support public schools.

But, I see us going the opposite way. We are about to decimate the wonderful university system that we have in this state, which is the state universities and the University of California. We've done almost nothing to expand this system since 1965, when I was a college freshman. So, we're taking a community college system, which has been the envy of the rest of the country, and we are about to do it permanent damage and take a Master Plan for Higher Education and dump it in the trash can, because what we are saying is we no longer believe in life-long learning. Because we are going to stick it to anybody who happens to have a degree who wants to go back to school at any of these institutions.

I believe that, in fact, we do need to read these reports, but then we need to put them in legislation. In fact, a commitment to that level of investment has not been there. We're going the wrong way. We're going downward in our per capita investment in schools, not upward. I would hope that some of the economists, especially those who have spoken to productivity, would speak to the desperate need to do something to repair California's public schools, which are not getting the attention they deserve. And I think that has to be the cornerstone of any economic recovery, and we can't fiddle around here another five or ten years. This game will be over in five or ten years. (applause)

SPEAKER BROWN: Mr. Kotkin.

MR. JOEL KOTKIN: Okay. First of all, I want to say that I am really sorry that the Governor isn't here anymore, because I was so delighted to see that he now thinks California is a good product, having said that it was a bad product so often.

I think that one idea that I would like to have out on the table is an idea that was developed by Governor Weld of Massachusetts, a Republican. And that was, to really try to get together with the growing companies. Most of the evidence in the 80s and the early 90s is that most job creation takes place in a relatively small number of what we call high-growth firms. We, in California, have the bumper crop of the high-growth firms in the country. What Governor Weld has done is to go to these firms, these fast-growing companies, and ask them, "What would help them grow?" Instead of always going to those people who either are leaving the state or losing jobs, we should concentrate much more on developing policies that help those who are creating jobs in the state. We have a huge number of fast-growing companies. And I think some process, like what Governor Weld is doing in Massachusetts to bring legislators together with them, would be very helpful.

SPEAKER BROWN: Thank you very much, Mr. Kotkin.

MR. C. MICHAEL ARMSTRONG: I would like to add that there is a lot of theory that has been communicated, and in the world of business you bring it to practice. And I would like to give just one example, and that is Hughes Aircraft, which is the largest industrial employer in California, as to what we are doing to grow again. And we have got to grow. We're a high tech company, and to be a high tech company you've got to invest. To continue to invest, you can't just borrow, you've got to earn your way, and, thus, you've got to grow. We have already invested about $1 billion to grow again, and I am sure we are going to invest hundreds of millions more. Ours is an investment strategy at the micro level. Fifty percent of our business is defense. We're going to downsize and restructure; that's not the issue. The issue for us is, where are we going to invest? This is our home. This is where our families are. This is where our kids go to school, and we want to invest here. But we have shareholders and customers and competitors, and we can only invest where our output is competitive. We can't carry the cost and California's tax structure; of the tort system; of the regulations; of the drop-outs that we are having to retrain as we bring them into our company; of the Workers' Comp system. We are being forced to invest some place else, and we don't want to do that. We want to invest in California.

I'm new to this state; I moved here a year ago. I don't know where all the places of power are, but I met Mr. Vasconcellos the other day on a podium, and I am impressed with him. I met Governor Wilson when I called on him, and I am impressed with him. Willie, I just met you, and I am impressed by you and your reputation. I would suggest trying to be an author, and not a critic. If the three of you would take the consensus out of this meeting, and go in a room and don't come out until you have a consensus, we'd solve this problem. (applause)

SPEAKER BROWN: You are new to this state. (laughter) Ladies and gentlemen, please welcome the President of the United States of America, the Honorable William Jefferson Clinton.

PRESIDENT WILLIAM JEFFERSON CLINTON: Thank you very much. Thank you very much, Willie Brown, and thank you, ladies and gentlemen, for letting me join you by high tech communications for just a few minutes.

First of all, let me say how very impressed I was by the comments of the previous speaker. He may not have been in California very long, but I think his prescription for how to solve our nation's problems, concentrating on investment and achieving consensus, is what we all have to focus on.

I wish I could be with you in person today. You know I have spent a great deal of time in California in the last sixteen months, talking to people about the problems and the promise of your state. I don't believe for a moment that America's economy can recover until California recovers.

And I applaud what you are doing in this Economic Summit. I understand that the Economic Summit I sponsored down in Little Rock, for our nation, may have been part of the inspiration for this meeting and, if so, I am very grateful. I applaud Willie Brown and Senator Roberti and Governor Wilson, for co-sponsoring this, and all the rest of you who are a part of it.

Let me get to the point, very quickly, because I think that these summits work so much better when there is interaction, so I don't want to intrude on what I think is going very well.

First, I want to reaffirm my commitment to the economic revitalization of California. California played a major role in my election as President, and plays a very major role in my presidency now -- people who are important in your future.

Our Trade Ambassador, Mickey Kantor, is from California.

The Secretary of State, Warren Christopher, is from California, and we are increasingly involving the State Department in the revitalization of the American economy.

Our Budget Director, the Director of the Office of Management & Budget, Leon Panetta, was a Congressman from northern California, and is here with me. I'm in his building, as we speak today. And, of course, the Chair of the Council of Economic Advisors, Laura Tyson, is from northern California.

All of these people are in a position to bring their experience and knowledge to bear on what we in the national government can do. In addition to that, I've already had an extensive visit with Senator Feinstein. I've talked with Senator Boxer. I've talked with many members of your Congressional Delegation about the issues that they have brought to my attention. And, as I said, the time I spent there taught me a lot about the problems in California that are caused by reducing employment in the defense industry, by the collapse of real estate, by the problems in the financial institutions, by the general manufacturing difficulties, and by the increased cost brought on by immigration, as well as the population increase generally in California.

Let me say, first, that I am convinced we're going to have to solve this problem by partnership. I am offering the American people a program which will reverse three big trends in our country which have affected California.

We built an American Dream, especially after World War II, based on increasing economic prosperity and a high wage, high growth economy, increasing equality among our working people, and making more and more strength out of our diversity. The economic and social difficulties we have faced in the last few years threaten to reverse all those trends. Wages are stagnant, inequality has increased over the last decade, and our diversity has often been a source of great tension and division in California and elsewhere throughout the country.

I am convinced that in order to change this, the national government has to take the lead. First of all, in investing in our people, their jobs, their technology, and their future. Secondly, in dealing with the health care crisis. Thirdly, in reducing the enormous federal debt, to stabilize long-term interest rates and free up more money for investment in the private sector. And, finally, by developing economic policies in partnership with the private sector, which encourage more investment in the private sector, and which enable us to work together to create that high-wage, high-growth, economy again.

As that applies to California, it means we will be doing the following things: First of all, in my economic program there is a plan to jump-start the economy to create another half million jobs in the near future. California will receive a significant number of those jobs. Secondly, I intend to follow through on the technology policy I announced in California in the last campaign. That means we will be providing more incentives to start new enterprises, and to expand existing enterprises, and to build on the job-generating capacity of the leading technology companies that are in your state. Thirdly, I want to invest in our children, in their future, and our educational system. I want to do what I can at the national level to alleviate some of the problems caused by the financial conditions you have there. Fourthly, I will ask the Congress to change some of the tax rules involving passive losses in hope of alleviating some of the real estate problems in California, as well as giving industry more incentive to invest in the next couple of years.

Next, Leon Panetta and I have worked hard in trying to figure out how we can redesign some of these federal programs, so that the federal government can keep its commitment to the states that have been overwhelmed by immigration problems. California most of all, but also Texas and Florida and some other states, who should have been helped more by the national government, because of the burdens they bear due to a national policy on immigration.

Finally, let me just say, if I might harken back again to the last person who spoke before I did, California has some challenges that will have to be met by Californians. You will have to take the lead in improving your education system. I am going to give you a good Department of Education that will help to reform the practices in education and to make education work again. But some of the premier performers in America are right there in California now. You have to find a way to make their exceptions the rule in California education.

And next, you will have to take the lead in making sure your manufacturing and production environment is at least competitive with other states in the United States -- not by driving down wages, but by changing the environment so that you can be competitive. I will do whatever I can to support you. The best thing we can do here to help you with that, is to solve the health care crisis: to bring health costs in line with inflation; to make basic affordable health care available to all; and, therefore, to stop whatever incentives there are for people to move across state lines or to move their plants, because they've got high embedded health care costs. But a lot of these productivity issues are going to have to be faced, and faced squarely, by the people in California and by every other state. We are prepared to do our part.

I'll say again, this country cannot rise again to its full potential until California is on the move again. I'm going to do what I can to help. I ask you for your support in my aggressive plan to reduce the debt and to increase investment in education and training, in new technologies, in new jobs, and in dealing with the health care crisis. I will do what I can to support you. Together we can turn this country around. We can lift California up, and California can once again be the beacon of hope for America and for the world. Thank you very much. (applause)

SPEAKER BROWN: Thank you, Mr. President. We will be in Washington from the 8th through the 10th of March. Senator Roberti, Governor Wilson, and I, along with a delegation of elected officials and business representatives, will be making this visit to help implement some of the things you recommended. And we will do our part. We thank you very much for joining us this morning.

PRESIDENT CLINTON: Thank you, Mr. Speaker, and good day.

SPEAKER BROWN: And, now, ladies and gentlemen, a man who was mentioned during the course of the President's remarks. He is a son of California and a member of President Clinton's Cabinet. He is the U.S. Trade Representative, and he was the driving force behind the President's National Economic Summit Conference in Little Rock, Arkansas. Ladies and gentlemen, Ambassador Mickey Kantor.

<u>AMBASSADOR MICKEY KANTOR</u>: Thank you, Mr. Speaker. Thank you, Senator Roberti. I want to now, publicly, commend the two of you and the Governor for convening this group. I've had this experience, as the Speaker noted, from the other side of this kind of rostrum, and it is a vital part of getting ourselves together, inventorying our problems, as someone said earlier, and beginning to move on them in a way that is non-partisan in nature.

When someone stands in the unemployment line, they do not ask your political registration. When our kids aren't educated, they don't ask whether or not you're a Republican or a Democrat. And, when our education declines or our income declines, partisanship is not a subject for discussion. And so today, I know as you have done this, we have gone way beyond political rhetoric and political identification and tried to move into the realm of facing our serious problems in a serious way. I commend you for that, and I appreciate your invitation to be here. The President made sure that I was here. In fact, he said if I didn't, just don't come back, so...(laughter). Although, I think I left too soon. If you follow Mr. Laffer's prescription, my taxes would be so low that, maybe, I should have stayed in California. It does remind me of the flat taxes, something like the flat earth society, but that's another question, I guess. (laughter and applause)

Last night the President talked about common sense in restoring the American Dream, and I think that's what we have to look at. I can't help but offer one footnote for your dinner tonight, about the NAFTA, for which I have prime responsibility at this point, as an inheritor of that agreement from the prior administration.

The President supports the NAFTA, but with three supplemental agreements, which are critical. The President will not send the NAFTA to the Congress without these agreements, Mr. Speaker and Senator Roberti. An agreement on labor standards and safety; an agreement on the environment; and an agreement on safeguards in surges of imports, especially from Mexico. So you can be sure that I start tomorrow morning with representatives of the Mexican government. I have met with representatives of the Canadian government. We're setting up a framework and timetable, but that agreement will not go to the Congress of the United States, sent by this President, until we have those three agreements signed, sealed, and delivered.

(applause)

Talking about common sense, I think the one thing that this President has brought, among many others, is, as he said before -- it's not a mere cliché -- it's "putting people first" again. I think Angela Blackwell talked to it quite eloquently earlier, and so did Dr. Tobin, who is a Nobel Prize winner. If we don't invest in our people, in their education, and training, and apprenticeship, and Head Start; if we don't have prenatal care and if we don't have immunization programs, we're not investing in the greatest resource this nation has. No economic program, no stimulus, no investment, no dealing with the long-term deficit, will be worth a dime unless we invest in our people again, both short term and long term. And that's what you'll see as a central core of this President's package, which he will announce tomorrow night to a joint session of Congress.

Let me step back for a second and talk about what's happened to us in the last twelve years, and I'll try not to be too long-winded, Mr. Speaker. I know you've got a great agenda, and I know we want interaction, as my President has said. In the last twelve years, everything that has gone up should have gone down, and everything that went down should have gone up. Unemployment went up; bankruptcies went up; the deficit went up; incomes went down. Those are just a few examples of things that happened wrong in the last twelve years, because we had a theory that just didn't work. We decided we could consume and borrow our way into prosperity. It just doesn't make good common sense. What we need to do is invest and grow.

As we try to do that, I think there are three parts of the President's package that are particularly noteworthy. One is stimulus -- stimulus in terms of infrastructure -- in order to provide resources, such as smart highways or information highways, as well as in other areas that are going to be necessary for our future growth, not only here in California, but across the country.

Number two is to stimulate private investment as well. The engine of growth in this country over the last number of years has not been, frankly, in government and has not been in big business. It has been in small business, and unless we stimulate investment in small business, through things like investment tax credits, we're not going to grow the kind of jobs and economy that we want.

We need to invest in our people again, as I indicated before. I won't go over that again, except to say that, unless we do something about education in this country, unless we do something about apprenticeship training, unless we do something about re-training, unless we do something about defense conversion, and conversion for folks who are dislocated in a dynamic economy, then we're not addressing our problems adequately and their long-term devastation to the economic needs in our country. It is not only devastating to people, and that's bad enough; it is also devastating to our economy.

Long-term deficit affects long-term investment, which affects long-term job growth, which affects long-term incomes. We have got to stare that beast in the face; and if we don't, we're just kidding ourselves, and this President, tomorrow night, is going to ask, starting at the top, that Americans begin to share the pain, but share it fairly. We started this Administration by cutting the White House staff by 25 percent, by cutting perks in the federal government, indicating that we down-sized the government. Better government is not necessarily bigger government, and what we need to do is show we're willing to sacrifice first.

Next, we're going to ask the wealthiest Americans -- those who did best in the '80s -- to begin to contribute to our recovery in the '90s. We're going to ask that 70 percent of the new revenue increases come from those who are making over $100,000 a year. That is important to note, because we're going to ask everyone in the country to sacrifice. It seems to me quite logical, and this President has said it through the 17 or 18 months that I have traveled with him and watched him, that we're going to go up or down together, and that means sacrifice begins at the top, and that's exactly what is going to be called for tomorrow night.

So as we do this, we're going to create jobs; we're going to have income growth, long-term growth. Then we've got to do something about health care costs, which frankly, are not only a budgetary problem but are growing faster than any other cost in this economy. Unless we get that under control, while at the same time providing access to health care for all Americans, we're not addressing, probably the single greatest problem we face, other than the economy, in America today.

I would like to add just two or three other things, if I might. One is that we need a national education trust in this country. The President has called for it; it's going to have to be phased in. Every young person, regardless of income, should be able to borrow the money to go to college and pay it back in one of two ways: either a small percentage of their income, whatever that might be, over the next number of years; or, by giving something back to their country in terms of national service. As police officers, as teachers, as health care workers, working in their communities to make this a better place. This would have all kinds of positive effects on this country, including economically.

Second, we're desperately in need of political reform. We know here in California what we have done with political reform, and there are a lot of people in this room who were responsible for it. We need to do the same at the national level. It is literally stymieing our ability to get done in the economy what we need to get done. When the President finishes speaking tomorrow, you won't be able to get out of those House Chambers without being invaded by a bunch of briefcases who're going to try to stop the President's program. We need your help to try to break that log-jam, bring about political reform, and reform this economy.

One other area we are going to address, which the President has talked about, is welfare reform, to bring people the dignity of work, not just a job for job's sake, but training, child care, health care, to put people back into this economy. We have literally lost a whole generation of Americans. Tomorrow evening this President will begin to address the issues that have plagued this nation for so long. Our unemployment rate is over 7 percent -- for 14 straight months. I think Mr. Tobin would verify that we've had over 7 percent unemployment -- 16 million people without full-time employment in the country. We need your help to join with us to make this truly a national movement.

I'm delighted to be back in California. I want to report to you the largest caucus in this cabinet is the California Caucus, bar none, except maybe the female caucus. I think women may have us beat as Californians. (applause). But the four of us are joining with this President and this Vice President, focusing, as the President says, like laser beams, not only on the country but on California. California is not the caboose, it's the engine that's going to drive America's prosperity.

Thank you. (applause)

SPEAKER BROWN: Ambassador Kantor, thank you very, very much for interrupting your duties and flying out to be with us, with your fellow Californians. We also thank you very much for the assistance you gave us in securing the President's visit by satellite uplink. We will break for now, and go directly to lunch. As I indicated earlier, this will be a working lunch, complete with presentations.

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ANNOUNCER: The afternoon session of Day One of the California Economic Summit now begins.

SPEAKER BROWN: As indicated this morning in my comments about Mr. Arnold, he is co-founder of the council that studies the California economy. His partner in that endeavor is Mr. Stephen Levy. I have asked Mr. Levy to address the long-term economic issues facing the State of California. He will then be followed by Mr. Ueberroth, of the California Council on Competitiveness, and Mr. John Vasconcellos from the ADEPT team. And then we'll go into discussions. Mr. Levy.

<u>MR. STEPHEN LEVY</u>: Mr. Speaker, President Clinton left us with a superb text for this Economic Summit: promote investment, reduce inequality, value diversity, and achieve consensus. Our President, our Nobel Prize-winning guest, and many others in the morning session agree on the principle economic challenge facing Californians in the long run. It's to raise living standards and erase twenty years of economic stagnation for many and decline for some. I know that many of us have been blessed with education and opportunities that are not widely shared among all Californians, and we have not shared in the dilemma facing many over the past twenty years. So we need to reach beyond our minds and into our hearts and imagination, and share with Angela Blackwell the problems and dilemmas of the people that she represents.

Our President, our panel, our Nobel Prize-winning economist also identified the answer to raising living standards. It is to increase our investment in the private sector and in the public sector. Now I know from reading the paper that many have said this Summit will be a success if we can only reach agreement on reforming Workers' Compensation, streamlining permitting processes, and issues like that. Our findings indicate that that is a start, but it's only a start. It sets too low a standard for what Californians will need in the 1990s. This Summit must also commit to beginning the process of reaching agreement on a public investment and private investment agenda in California.

Now, what does that have to do with the Legislature? As President Clinton said, we're in a partnership. For example, the federal government can do certain things on education and infrastructure. But in this state, in this federal system, most of the responsibilities for public investment lie with legislative action. If the Legislature cannot succeed, the investment again will not move forward. Let me see the first slide.

As John Shoven pointed out in his earlier remarks, we have faced two decades of flat real wages, declining for some, doing better for others, but with virtually no increase in our overall standard of living. It has been a bipartisan tragedy. It's been with Democratic presidents and Republican presidents, with Democratic governors and Republican governors. Jobs are part of the answer, but, as you look at this chart, remember that real wages, real living standards, were flat during periods when California's job growth was phenomenal. Jobs are important, but they are not the only answer to increasing living standards.

Look at the chart again. Real wages were flat when defense spending was rising and when defense spending was falling. California's prosperity does not depend on defense expenditures. However important the problems of workers' compensation and the problems that Peter Ueberroth and John Vasconcellos found universally throughout the state, however important those problems are, real living standards were flat in the 1970s when these problems were barely mentioned. This is a long-standing and powerful force. Note, finally, that, whatever we think is unique in California, is actually one human tragedy we share with the nation. We started a little above the nation. We and the nation were flat. We remain a little above the nation. In this most fundamental determinant of economic progress for our citizens, we and the nation share the same problem.

That means, I think, that the Legislature can look, not with a competitive eye, but with a collaborative eye, towards other states and towards the federal government in mounting the support that will be needed to provide an investment agenda.

What does that mean? Let's look at the second chart now. To an economist it's simple, but I know it's difficult. I can't explain it to my wife; I can't explain it to my mother; and I have marginal hopes for you all today. (laughter) What we're trying to say was said eloquently earlier. Investment is providing tools to people, tools to companies to be more productive. If our workers are more productive, they earn a higher wage. If they have better tools, our companies are more competitive. In the long term, jobs and income flow from investment and productivity.

Many people are going to talk about what needs to be done for the private sector investment agenda. I want to spend a few minutes on the public investment agenda, since that is uniquely and solely a province of decisions that you all can make. I know that this conference wants to know what can be done in California.

The first point to understand is that the public investment agenda is the principle determinant of private investment strategies. Public investment, a skilled work force, infrastructure to move goods and people, support for the quality of life, are some of the principal determinants found in business locations studies. So when we talk about the public investment agenda, we're not only talking about something for our citizens -- social issues, quality of life, fairness -- we're also talking hard business. The public investment agenda is a precursor to private investment.

What can the Legislature do? Well, as many have said, education is a principal determinant of productivity increases, of hope for people who now have no hope. And education funding is primarily determined by legislative action, both in terms of the budgets we allocate now and in terms of future bonding issues.

Infrastructure is also an area where the Legislature has a key role. I was going to show you a lot of charts about California's potential, but the Governor said it very well. We have a strong, competitive position in industries that will lead the world in the future. We like to say the three "Ts": technology, trade and tourism. You're going to hear from people throughout the rest of this summit, who will open your minds to the boundless opportunities available to California industry -- if we can only do the investment. With the proper public investment agenda, we can achieve both job growth and rising living standards. Without it, job growth, however numerous, cannot hope to erase two decades of decline for many middle class Californians. Thank you.

SPEAKER BROWN: Now, let me ask Mr. Peter Ueberroth to approach the podium. He is Chairman of the Governor's Council on California Competitiveness, and he is the Chairman of the Committee to Rebuild Los Angeles. Mr. Ueberroth.

MR. PETER UEBERROTH: Mr. Speaker, honored elected officials, caring Californians, thank you for listening to me today for the six minutes we have to share. Let me first tell you that you are my bosses, elected officials. I have had the honor of working for free as a volunteer in my last two jobs, and I am going to continue to do my best. Today you are going to hear a little bit about the CalCom report and the ADEPT report, and I think you'll hear from John and me both that we are about 90 percent in agreement on all the major issues. So I won't waste your time taking you through that. I'd rather give you my impression of street economics and what's going on today, and of the things you're going to read about and see charts about in some years to come -- next year, the year after, and the year after that.

First of all, Democrats and Republicans in Sacramento, California is not an anti-business state. It never has been; you've never allowed it to be. What you have done, however, is made it an anti-jobs state. California is anti-jobs. Why do I say "anti-jobs"? It's not just business jobs, it's any kind of jobs. John Mack is in the audience. You could get him up here, and he could tell you that in five years the Urban League's Workers' Comp bill has gone from $30,000 to $300,000. John is trying to help the rebuilding of an inner city, and, with that extra $270,000, he could employ people, who could train other people, who could be in our work force, who could pay taxes and be part of our society.

Without jobs, you just don't have the money, so you might as well all go home. If you don't have the money, you will not have the money for your children, for the educational improvements that we need, for the infrastructure, for training, for health care, or to have California compete globally. You just won't have the money.

What's happening to jobs in California right now in the street? In reverse order of importance, the following is happening: companies are leaving. Least important, but they are leaving, and you can account for them, and you can keep track of them. Second, and a little more important, is that companies are staying in California, our wonderful state, but they are taking a good portion of their jobs out, and they're not their low-paying jobs, thank you.

Next, and even more important, is the growth companies. You heard a luncheon speaker talk about bio-tech, and I think he used $270 billion in estimates. Half the bio-tech companies are located in the State of California, but go talk to them, and they're taking their growth out of the state. They'll still be here; their addresses will be here; but their jobs will be in Indiana and Nebraska and elsewhere.

More important than those three is the small business snuff-out. An anti-jobs attitude -- not anti-business -- takes the entrepreneurial flame and puts the thumb on it. I think I have had more experience owning or being involved in small business than maybe anybody else in the room. You're snuffing out the entrepreneurial drive, because the real person that's being hurt in the State of California is not big business, not medium-sized business. They can afford to stand up. It's the little woman, the little man, in a little business, somewhere in Los Angeles, or in San Francisco, or in Oakland, or elsewhere, who has no chance. So that's the next most important thing. That is very important.

The most important thing that's happening to jobs in California, however, is that $20 per hour jobs are being switched for $8 an hour jobs, and the taxes, revenue-production for you to be able to do anything worthwhile, are going to cause a huge shortfall if you allow it to continue to happen.

Basically, we have a fine-tuned, job-killing machine, and you know that better than I do. The good news is, we are not too late. The good news is we're not too late; we're still the best place. Worker's Comp you must reform, and you can't fake it. It's the litmus test. Every single person, whether it's a little tiny two-person dry cleaners or a large corporation, that's where they start, and that's why people tell you it's important. You can't talk about more prosecution and doing little technical things with it. You must take out the fraud. You must take out the killing of little businesses in California.

Second is regulatory strangulation. In the inner city in Los Angeles, there are 55,000 small businesses, according to the McKinsey Study. Pick'em. Go pick two, three, five, ten, twenty, and ask them what's going on, and they will tell you what I'm telling you. Regulation strangulation. You can regulate this state, but you have to make it work. It doesn't work now. There's no way they can even keep up with the paperwork. Their only chance is to break the law.

Educational accountability. You sit on top of what is perhaps the largest single educational budget anywhere in the world. You've got to make it work. It's got to be accountable. You've got to look at languages, so that people can understand the language and work in the language that they are going to be employed in this state. And you have to have a vocational track, not have everybody in college preparatory when less than half are going that route.

Tort reform. I don't need to tell you it adds the highest cost to products made in the State of California. It doesn't allow us to compete with other states and with other countries. And, of course, the minimum wage. You have to step up to that decision. It can't stay where it is. There's nobody who can have the dignity to take home enough pay to do anything for their families or for their households at the current level of the minimum wage.

Rebuild L.A. (RLA), my free job, which no one else wants so far, has given me something that's of great value, and that's the education I needed in the inner city, and I thank Tom Bradley for that. Large corporations are supporting change in the inner city as they never have before. Sam Ginn, whom you'll hear from, and Frank Cruz and Ron Burkle and Mike Armstrong and others on the panel, are all starting to do something in the inner city. But RLA has taught me something else. It's taught me that those people who work in the inner city have the toughest hill to climb. They're the ones that are being strangled. They're the ones that have been impacted. They can't hire the lawyers to defend themselves. And, if you snuff them out in the inner city, you'll cause other kinds of problems.

In conclusion, it's change time in America. The rest of the world is changing very fast. You may think we can stay the same, but I know, painfully, that we cannot. In 1984, I worked very hard on something called the Olympic Games in Los Angeles. Our sister city was a city in Bosnia -- Herzegovina, called Sarajevo. And I watched these two cities, side-by-side, have great moments in the sunshine. And I watch them suffer greatly today.

It's time to return jobs to the forefront. That's the engine that allows you to pay your bills. It's the engine that allows you to do the important things for the youngsters in the next generation in California. Please have the courage to change. If you have the courage to change, you will indeed have a better California. Thank you very much. (applause)

SPEAKER BROWN: The long-term chair of the Assembly Committee on Ways and Means undertook the responsibility to look at California's economy. He put together a team of other legislators, retained a consultant named Jim Hunter, and produced a report, which, as Peter indicated, is 90 percent consistent with the Council on Competitiveness Report. I refer to none other than Assembly Member John Vasconcellos.

ASSEMBLY MEMBER JOHN VASCONCELLOS: Thank you, Mr. Speaker, my colleagues in the public sector, and my colleagues in the private sector. And I open that way because, unless we all know we are colleagues in addressing this crisis, there isn't much hope of finding any solution.

I'm here in a role that no one would have predicted for me or expected of me 18 months ago. I have worked for years on education, self-esteem, multicultural democracy, but not even one year on economic development. But, thanks to the Technology Leadership Council in Orange County, Mike Gibson, Roger Johnson, the American Electronics Association (AEA) in Santa Clara County, Bob Ulrickson, Betsy Bryant and others, two meetings fifteen months ago persuaded me that it was time for me to pay attention to what I hadn't before paid much attention to. And I come today, because this Summit has such enormous potential that not one of us can afford not to be here, not one of us can afford not to carry through to some resolution.

The reports we did, Peter Ueberroth and his team, and I and my team, are wonderful reports, whose value lies only in their transition into reality implementation. I have come today to try to up the ante, and turn up the gas, and get us all more deeply committed, because the future, as described in our report and the other reports, is far more complicated and more dire than I had expected. That's our Chapter One.

Chapter Two in our report says, if you're going to have a solution that you want to design, you ought to know the causes so you design appropriate solutions. The causes are: the national recession, and the Cold War, and the credit crunch, as the Bob Arnold school so prominently displayed. But they are also the global economy, the changing educational needs, the cost of doing business in California, the school system and its disappointments, if not failures. And even our own success. We've become such a popular place to be in the world, everyone wants to come here, and be here, work here, and live here, which causes more congestion, and more traffic, and higher housing costs. So our success creates many of our problems.

But let me further state that, whatever the causes have been, and whatever problems and issues need to be reconciled and addressed, the most important among them is the future and how we re-establish ourselves. Because even if it's only the national malaise that got us into this, without agreement on the kind of future we want, we won't get out of this.

In Chapter Four, we offer what I think is probably our report's most important recitation -- those profound changes in our lives, in our culture, public and private, on account of which we must design solutions that fit the Twenty-first Century and not the last decade. I feel that people with left- or right-carrying stereotypes and images will try to recreate more of the same, and none of that can work, because we are in such a profound time of change.

Tom Peters' next-to-last book was called Thriving On Chaos, and he chose the word "on" because he felt that, henceforth, chaos would be our normal diet. We must equip ourselves to live amidst change and thrive on it, not try to thwart it, or wish it weren't here. I think we have to lay the context for designing solutions to the first and perhaps most profound change, the changing character of California's population. Not enough has been said here. You know, in the year 2000, now less than seven years out, of the 21-year olds entering the California work force, 80 percent will be women and/or persons of color. Only 15 percent will be white males like me. And so the work force of the future is going to look different and be different. In the year 2010, 16 years out, we retirees -- hopefully I'll still be around as one of those -- will be three-quarters Anglo, and in our work-force, two-thirds will be black, brown, Asian, and other persons of color.

If we are to be competitive internationally, we've got to find ways to incorporate value, encourage, nurture, and educate every child of whatever race, or nationality, or language, or origin. That's a bottom line that has to be made explicit in our monetary consciousness.

At the same, we have not stressed enough the emergence of a global economy, and it's changing work force -- who we are, and the arena in which we have to operate. Reading Joel Kotkin's "New Tribes" book or the book about Pacific Rim operations, you know the world is different. It was made clear to me by two conversations: Winston Chin, Selectron CEO, Asian-American, and a major Santa Clara County manufacturer, said, "I've got to move my manufacturing to Singapore. It's $1.35 an hour there; it's $10.35 in Silicon Valley." Pierre Luigi of Logitech -- they make the mice for Macintosh -- said, "You know, I moved all my manufacturing to Shanghai last month." I said, "Shanghai?" He said, "Yeah. People call me disloyal. Did you ever try to grow tea in Silicon Valley, which is my home?" I said, "No, I don't think so -- wrong climate." He said, "Wrong climate for low-paying jobs. They don't exist here with housing costs and other changes." And it's those two changes, the transported and multicultural workforce, and its global economy and its transportability of modernization and of technology, that leaves us in an utterly different world, in which we have got to find ways to re-establish our pre-eminence, not by being cheap labor, and not by being otherwise divisible as one person, Republican/Democrat, Governor/Legislature, human development/economic development, long-term/short-term. It's all on the table, and we're all in this together. To divide and conquer is to lose it for all of us. And if there's one thing I've learned in these past 15 months of traveling the state with my ADEPT colleagues, ten of us, diverse as to race -- four persons of color; diverse as to gender -- four women; and diverse as to geography -- from San Diego to the Silicon Valley and San Francisco, it's our need for each other.

David Packard was telling me some years ago, across our gulf of partisan difference, "Young man, you need us." I said, "Really?" He said, "Yes, you need us to be productive and profitable, to make taxes to fund your services." When I became Ways and Means chair, I began to understand what he meant. He said, "And, young man, we need you. To be productive, we have got to have a good work force and infrastructure, water, and waste, and transportation." None of us can make it in this brave new world alone. And if today has any significance, it's that each of us, I think, commit ourselves to some personal transformation.

Many of you have watched me, over the past year and a half, figure out how big and different the world is and how I need to employ myself differently. The changes are about multi-culturalism. They are about global economy. They are about technology. They are also about the role of gender -

- women who can think and men who can feel. They are about the changing character of work and of organizations, to be learning organizations. The latest thing in Silicon Valley is a book called The Virtual Corporation, in which the authors talk about those businesses that will succeed in the future. They are those that reinvent themselves everyday to meet the changing global economy and culture. And all that can produce those kinds of businesses or governments to be reinvented are persons who are like ourselves -- able to reinvent ourselves every day and think, and see, and feel, and collaborate, in new and different ways.

So with that sense of change, the ADEPT report has a ten-point program that mirrors much of the Ueberroth report program. It's about restructuring state government, and the Governor has already signed a bill to elevate trade and commerce to a secretariat and appropriately appointed Julie Wright to head that. But structure doesn't work, unless you change attitudes, and that means every one of us -- from the public to the air resources field person, to a legislator, to a corporate exec, to the line employee. It's about being different kinds of persons who recognize the totality and the unity and the diversity as a strength.

Next is long-range planning. Part of our difficulty is that we failed to look ahead to the economic conversion which must follow the end of the Cold War. We've got to simply look and plan together about the emerging technologies, the global economy, the small business startups, the problems of being competitive across the lines of state and nation. We've got to think together and act together, as President Clinton talked about this morning, as we're doing here today.

Fourth is tax incentives to start up more small businesses, and fifth is Workers' Comp reform -- this year. The last five, not detailed in our report but ready for detailing after this year's consultations are: Sixth: multicultural work force preparation -- probably the most profound of all ten. Seventh: permit processing, streamlining, safety and environmental. Eighth: tort reform -- review that system. Ninth: economic conversion and assistance. Tenth: infrastructure investment.

These ten recommendations mirrored in Peter's report and mirrored by most folks who think about it much, now are at Legislative Counsel. We have a bill on the floor to be introduced in the next month. Hopefully, out of this conference will come the kind of two-house, two-party, two branches of government and two-sector (public and private) commitment to a common agenda for our common plight and a common future to make California an ADEPT state, a competitive state, a healthy state, in which every one of us really owns up to our own responsibility.

This conference has enormous potential, and hopefully each one of us today will come out of it with a sense of fire, a sense of urgency, a sense of commonalty, and a commitment to really put California back on the map. Thank you.

SPEAKER BROWN: We are now at the point where we've heard the three presenters for this afternoon's first panel and we now have about 40 minutes for exchanges among panel members, individual Members of the Legislature, as well as the audience, and I will switch back and forth between the various groups. There are microphones on the far right and the far left, and those of you who wish to say something should queue up over there.

Let me start with those on the panel. Mr. Bruce Lee.

MR. LEE: My question is for Peter Ueberroth. Peter, as you know, in our work on the Competitiveness Council, we discovered that there are some 25 different agencies in the State of California that deliver training of various and sundry types. There is no coordination at all between any of these agencies, very little interfacing. Some don't even know the others exist. Duplicity is rampant, and very little gets done in the way of economic development, which I think training really leads to. Since the elevation of the Department of Commerce to cabinet level, would you see any value in a consolidation of some of those agencies, placing them maybe into that department and charging them with using that millions of dollars to address, at least now, that problem of economic development? I recognize it isn't the long-term cure, but it would certainly get us started.

MR. UEBERROTH: Well, I think that putting those departments together, if it made them more efficient -- and I can't judge government, I don't work in government -- but, if it made them more efficient, certainly you ought to do it. Two pieces of that, though, that I think we can learn from. In the inner city, the two firms that stepped out first for training were both Japanese, because they do think long term, and they wanted to be first into the inner city work force to train people. Now, the interesting thing about their training programs is that, at the end of the training, there were always jobs. If you spend time in the inner city like some of the elected officials here do, there's been too many job training programs without jobs. So you need to take the resources of the state, in my judgment, put them together and make them more efficient. Then, bring in the private sector, so there are jobs at the end of the training programs, because what that does is regenerate economics for the State of California.

SPEAKER BROWN: Now, we have a Member, Mr. Costa from Fresno.

ASSEMBLY MEMBER JIM COSTA: Thank you very much, Mr. Speaker and distinguished guests.

A lot of the conversation this morning has been focused on some of the long-term functions that we have to deal with if we want to get California's economy moving again. I'd like to bring the conversation a little bit closer to home, as it relates to the decisions that the Legislature's going to be dealing with, together with the Governor, and I'd like to ask a question to some of the captains of industry that are here today -- Mr. Godbold, or Mr. Starzel, or Mr. Zax, or Mr. Ueberroth.

We're facing an $8 billion-plus shortfall in the state budget during the next three or four months. We've been told this morning that we have at least a $5 billion-plus investment in education that we ought to be making, if we want to raise California's education to the status that it ought to be in terms of investing -- the investment that's been talked about here by our economists. We also know quite realistically, given the nature of the recession that this state is facing, that the body politic is not going to entertain any type of a tax increase to narrow that gap. We've been told by the economists here today to save and invest. We also know that we have a job ahead of us in Workers' Comp reform, as well as regulatory relief. My question to you is on the short term; I think it's clear on the long term what we have to do in terms of investing in this state. On the short term, I'd like some of the leaders of business here to suggest to us how we might deal with the economic difficulties the state is going to face in the next four or five months, without the sort of protracted deadlock that we faced last year.

SPEAKER BROWN: Let's try Mr. Starzel, from the Southern Pacific Lines group of companies. Mr. Starzel.

MR. ROBERT STARZEL: I didn't come prepared to tell you how to deal with that. I have to tell you that that's a terrible problem over the next four or five months, and I don't know that any of us have any solutions. All of the things that we, in business, find difficult in California aren't going to solve your four to five months of problems. The kind of regulatory problems that we incur, the over-strict enforcement of environmental standards, the things that take jobs away from people by making us less competitive and putting the jobs in other states, are not things which can be solved overnight, and I believe that our answers are mainly for the building process ahead.

SPEAKER BROWN: Any other member of this panel who wants to...

MR. GODBOLD: Yes, Mr. Speaker.

SPEAKER BROWN: Go ahead.

MR. GODBOLD: I may be naive in this entire process, but I think one of the solutions is to forget whether you're Democrat or Republican and find a way to work together. Part of the concern of the body politic is the deadlock that we've reached. Part of what we need is clarity of leadership.

I commend the Speaker and the Governor for calling this conference together. I think if we can give you clear direction, that between John Vasconcellos and Peter Ueberroth, you have the answers. There are a lot of things that you can work on very quickly, but what business needs is a symbol, a symbol that we know what direction we're moving in. When business has that symbol, we stay; we work hard in California; we provide jobs; jobs provide taxes; taxes provide the funds that you need for social programs. So what we need is to have you depolarized, and, if you would depolarize, listen to what's going on here with your hearts as well as your minds and be one entity. It's naive, but it's the way to go and it'll save California.

SPEAKER BROWN: Thank you, Mr. Godbold. From San Diego, a new Member of the Legislature, Mr. Jan Goldsmith, with a question.

ASSEMBLY MEMBER JAN GOLDSMITH: Thank you, Mr. Speaker. I have a question that's directed to Mr. Ueberroth and Assembly Member Vasconcellos. It is a concern that's been raised in my district among my constituents, and I know a lot of us have heard the same complaint. It is over-regulation and over-zealous agencies, duplication in inspection fees, penalties imposed by agencies on the basis of minor or technical violations. In the spirit of the collaborative approach that we're trying to take in California, it doesn't bode well for business, and it does drive up the costs unnecessarily. In the Council on California Competitiveness report, Mr. Ueberroth, your group recommended an approach that had to do with eliminating some of the incentives that these agencies have to impose duplication fees. And I mean I've heard this from hospital districts, for example, that have told me about situations where they have three or four inspections of the very same item, from three or four different agencies. I'd like you to explain, Mr. Ueberroth, your proposal and then I'd like to hear from Mr. Vasconcellos as to his reaction to that proposal.

MR. UEBERROTH: Basically, if agencies of the government get their funding totally from the fine process, they're out there. As the problem gets better and their organizations grow, they have to hammer on the same group of people, and you start to have a counterproductive activity. I think the best summation for the people listening here today is another state, which will remain nameless. What they do is very simple. They bring in every business person, whether it's a business person operating a not-for-profit hospital or anyone else that wants to move into their state. The Governor looks them in the eye and says, "I'd like you to meet these 12 people we have here. First of all, I want you to know that our air quality standards are tougher than yours. Our environmental standards are more important to us than we think they are to you. We enjoy good air and water quality, and we're very sincere about what we do. BUT, these 12 people are in charge of regulation in our administration, and they have the paperwork in front of them. They will fill it out for you. They will process it for you. And they will give you an answer in 21 days or it comes to my desk."

It's basically government doing its job efficiently -- one stop -- so that investment can be made. In this case that I'm talking about, a huge group of California jobs moved to -- I'll tell you the state -- moved to the State of Utah. That has to stop. Over-regulation is not the problem; it's the way it's administered. California must keep its environment as number one. We do not recommend any changes in environmental standards. We recommend changes in the way they're enforced and the way they're handled. We recognize that the fine system will end up destroying us all. I think that government regulatory bodies are among the fastest growing entities in the state. As one elected official said to me when I tried to talk about private sector being a partner, "It doesn't matter if we lose all those private sector jobs, we'll still have the government jobs."

SPEAKER BROWN: Mr. Vasconcellos?

ASSEMBLY MEMBER VASCONCELLOS: One response: we were assured by business leaders that they were committed to the environment and wanted no alleviations of the current standards. What they need are processes that are equitable, singular, cohesive, have some closure, and don't waste people's time and money. Our report calls for streamlining, and the one-stop shopping idea will be part of our final report.

The second piece on fees and fines, we haven't talked about, so I don't want to predict ADEPT's recommendations. But there is an incongruity in the same folks being judge, jury, prosecutor, and beneficiary of the fines. We need to look at that.

The third piece, which I think is a longer-range effort, is a shift in the regulatory culture away from the "I know what's best, you do it my way or else" approach to a negotiated conclusion, and a negotiated means for monitoring the processes.

SPEAKER BROWN: Thank you, Mr. Vasconcellos. And now I'd like to go to the audience and go to the microphones in the audience if the technicians are ready for that. And we'll go to the right side first and please, just give us your name and your location and then your comment.

MR. JOE FAHEY: My name is Joe Fahey and I'm with Teamsters 912 in Watsonville. As someone who has been on the front lines in re-training displaced workers, I want to emphasis Mr. Ueberroth's point about how we're often more interested in training than in jobs. If you look back to World War II, when Rosie the Riveter was required, there was a job, and she didn't need a two-year certificate program to become a welder. It was just that there was a job. The question that workers, 4,000 Teamsters in Watsonville, California, have when they qualify for re-training because their jobs go to Mexico is, what are we going to do? Where are the industries of tomorrow? How are we going to get them? For example, Green Giant is gradually moving their Valley of the Jolly Green Giant to Mexico. And as they are doing that, they have participated in worker training. They've won awards from the state. They've won awards through the Federal JTPA Program. This job training began over two years ago, and these workers still don't have jobs. Most of these people have fourth-grade educations. I don't believe anybody's seriously thinking that these people, whose median age is 45, are going to go out and get high school educations. What are we going to do with these folks? What is it going to cost us to give them training to be the bio-tech engineers of tomorrow? Not that that is a practical approach.

Conversely, what is it going to cost the state if we do anything to prevent people who did perfectly good jobs, and who are contributing to the economy and the tax base, from being, you know, transformed from givers into receivers? Not to mention what it is going to do to the generation of kids who follow the American dream of their immigrant parents. When they came here, there was a manufacturing economy to enter into; that manufacturing economy is disappearing. So, when we get to issues of global economy and free trade, we can't just start talking about education, and we can't just start talking about training for high-tech, high-paying jobs, without first considering some of the effects. As Mr. Vasconcellos said, we must consider our diversity, because this is a diverse state, with a lot of immigrant workers who are in manufacturing, and where are they going to go?

SPEAKER BROWN: There is an important issue which Mr. Fahey brought up during the course of his remarks. We have a tendency in this nation, as well as in this state, to train people for one task, one job, and assume that that person is locked into that for life. That is a process we have followed historically, but which we must now alter dramatically. In terms of the long range, we must commence to pay attention to the real need for flexible training and retraining to meet new opportunities. That is a necessary cost for a trained work force. I think it's well worth some comment and some dialogue, so that public policy makers can begin to think in those terms, rather than in the traditional terms of one-shot training or one-shot offers of temporary social assistance, not be temporary. Let's start with Mr. Trotter.

MR. JOHN TROTTER: Well, that isn't really my issue, so I'd like to, if I could, talk about another one.

SPEAKER BROWN: Go right ahead.

MR. TROTTER: I come from a different discipline. I'm a retired judge. I was a trial court judge, and I was a presiding justice on the Court of Appeal in the State of California. I know the litigation system, I think, as well as anyone. I probably preach to the choir when I tell you that it doesn't work. That it costs California an enormous sum of money. However, the answers may be different than you think. I don't believe the answer is solely tort reform, because that deals with constitutional issues. It deals with the rights of people to exercise those rights that are uniquely American. But the answer does deal with the way in which disputes are resolved.

I am now with an organization that practices what we preach. We do what we call "alternative dispute resolution," something you've probably heard about. It's growing, it's popular. And the reason it's growing and popular is because it works.

A statistic that has been constant throughout my 30 years as a lawyer and a judge, is that 96 percent of all civil law suits are resolved without a trial by judge or jury. Yet, the cost to get those cases to the point of resolution is enormous. This is not a partisan issue. This isn't a Republican issue or a Democratic issue; it isn't a rich versus poor, or a have versus have not. The injured poor person is just, and maybe more, in need of immediate compensation than someone else. The business that is defending suit after suit after suit sooner or later has to figure out a way to resolve those claims. So it cuts across a broad spectrum of California. The money that you need in California to invest in education, and in other things, might come from your litigation budget, if you didn't have such high litigation costs.

Both Mr. Ueberroth's report and Mr. Vasconcellos' report recommend alternative dispute resolution. Some of you have used it. Some of the people on this panel have used it with our company. My company, called Judicial Arbitration and Mediation Services, already hears 1,000 cases a month outside the court system. One thousand cases a month. We could hear 10,000, if more people would use it. There isn't necessarily a legislative remedy here, but it's a practical remedy. It's a cultural remedy. You can use it in your business, your organization, your institution, merely by wanting to use it. There was a bill in the Legislature last year to mandate it, that didn't pass. I'm not so certain that mandatory alternative dispute resolution is the answer, but certainly the use of alternative dispute resolution is the answer. I'm happy to see that our Attorney General has made a statement that he endorses it for his attorneys, that they will be encouraged to use it whenever possible. It is a way to dramatically reduce the cost of litigation.

Whether you can change the tort system or not is debatable. You certainly can reform the Worker's Compensation system because it's a creature of statute. The Legislature created it, so the Legislature certainly can change it. But that's not true with the tort system. The tort system has its genesis in the Constitution. It's a much more difficult problem, but I suggest to you there are other ways to resolve that same problem, and that is through process resolution. If everyone brought their case to resolution a year earlier, 15 months earlier, than they now do, the cost of getting there would be dramatically less.

Probably the least beneficial dollar business spends today is that dollar that's spent in either prosecution or defense of a lawsuit. Ninety-seven percent of the time it's a wasted dollar, because the claim will be settled. The system is so over burdened, so expensive, that it allows fraud to flourish. The cost to try the fraudulent case, from an insurance company's perspective, is often so expensive that they can't afford it. They know it's a fraud. They must pay it anyway, because they can't afford to defend it.

If all of the cases that are legitimate, which is the great majority, were resolved quickly, the court system could handle and deal with the fraud. Fraud would be more identifiable. It would be a savings to the taxpayer. You wouldn't have to keep adding judges and all of the things that go into that branch of government. My former brethren and sisters in that branch of government are probably wincing as I say this, but it's the resolution process that doesn't work. It makes no sense for people in a complex urban society, where we know there's going to be conflict, to each hire an Attila the Hun-type lawyer to fight until the death, and then, 10 minutes before it goes to court, to settle the case. And that's exactly what happens today 96 or 97 percent of the time.

And so, I urge you, if you can do anything, to bring some sense to the litigation process by adopting policies and procedures that encourage the use of alternative dispute resolution.

SPEAKER BROWN: Dr. Munitz.

DR. MUNITZ: Mr. Speaker, let me try to answer your question. I'd like to call attention to the third segment of public higher education, because it's part of the answer to your question, and also refers back to Peter's comment about vocational as well academic training. We have 107 community colleges in this state, and many of them are superb at the vocational training, the alternate training, the retraining that you are asking for and that Peter was referring to. For example, in the exploding field of environmental technology, our San Francisco campus, of which, incidentally, you are a graduate, has a joint program with local community colleges in exactly this retraining area. Part of the task is to get away from the single sense of prestige in higher education. There are multiple ways to be successful. There are multiple ways to gain stature. The most critical is to have a job. I would urge us to keep our eye on the community college linkage, both to the University of California and to CSU, in order to respond to your request and to Peter's request.

SPEAKER BROWN: Thank you. Mr. Hayes, who heads Joint Venture: Silicon Valley and Applied Materials.

MR. TOM HAYES: Thank you, Mr. Speaker. We have heard a lot of good ideas today, and are likely to hear more, in the next day and a half, about what we need to do to correct the state's economy. The challenge here and, I guess, the critical test of the Summit, is transforming those ideas into action. Joint Venture: Silicon Valley is largely about action, action which in the last year has allowed us to really prepare the Silicon Valley for its next generation economy. What I've learned from that process, I'd like to share with you. There are four steps that I think you might take to make this Summit both a success and get the state moving again. First, that you make some sort of agreement by the time we finish, that this is the starting point, not the ending point, of the process of correcting the state's economy. That we take a good year, because it will require a good year to get everything done that needs to be done, not to trivialize what the problems are. Not to take so much time that we lose energy. To reconvene this Summit in a year, and to do so probably appropriately in the north, and we'd be happy to host it in Silicon Valley. To ask Governor Wilson and Senator Roberti to join you tomorrow evening at the end of the Summit in standing shoulder to shoulder and declaring a one-year moratorium on partisan politics in Sacramento relative to matters economic in nature. And then, fourth, to declare all matters in Sacramento economic in nature. Doing that will give you the momentum and the bold departure from business as usual that we need to get this state moving. Thank you.

SPEAKER BROWN: Thank you very much, Mr. Hayes. I will see that Senator Roberti and Governor Wilson get a copy of your testimony. George, your light is on.

MR. GEORGE BABIKIAN: Thank you, Mr. Speaker. It is a pleasure to be here, and I've heard a lot of very interesting comments. Being a private sector entrepreneur by nature, I'm always rather biased toward action, and I hope that this group of esteemed Californians who represents all of us in the state, and that the state Legislature and you, Mr. Speaker, will take heed that we have a real need for action, and we have to have a bias toward action.

It seems to me that California has two kinds of problems. One can be solved legislatively, and that is something your skills as a leader, Mr. Speaker, and those of others who represent the citizens can really do something about. We need to change the perception of California. That perception can be changed quickly. We don't need a year to study it. We found two studies whose recommendations are very close, one by Mr. Ueberroth and one by Mr. Vasconcellos. What we need is a quick agenda to pass three or four of these initiatives to reform our business climate so that we can really go out to the public and say that California's moving; California's changing. California is no longer anti-business; that, in fact, there is a new unification and the understanding that California does well when jobs are created; and, when business does well, that means people pay more taxes. It means there are more employees, and they're paying more taxes, and, ultimately, it means that you legislators have more money to do the good deeds that we need done in this state. So there's a real partnership. So, I really urge you to move quickly to solve some of these problems. To have a bias toward changing the perception of California, and believe me, it is needed. There are long-term priorities, certainly, that need attention as well.

Then I'd like to focus, if I can, Mr. Speaker, on the private sector, and to go back to the banking crisis which has had tremendous impact on California. Real estate is a very viable industry, but it's more important than just an industry. It's where we live; it's where we work; it's where we travel; it's where we communicate. And it also represents 70 percent of the local tax revenues. One of the crises that we're about to face in this state, if we aren't already, is the problem that we have with decreasing real estate values and the impact that that's going to have on these local tax revenues. We have not begun to see the failures in Mello-Roos. They have been held up, primarily because there is an interest reserve in the Mello-Roos process, but we're going to have failures and defaults. We're going to have districts and agencies with lots of problems because, in fact, their assessed valuations have gone up, and, because of Proposition 13, their tax revenues have gone down substantially. I think that's a crisis in this state, and we're going to learn more and more about it in the upcoming months.

But to move to the tight money issue, we have been over-regulated by unregulated regulators. It is a real problem for us here in California. I have not heard anyone talk about the over-regulation problem in any depth here, and I would like to ask our friends that are here from the banking industry -- either the economists or David Coulter, who's a vice chairman of Bank of America -- if, in fact, there has been some leeway in the over-regulation problems we've had in the banking community by the federal government?

SPEAKER BROWN: Mr. Coulter, do you want to respond?

MR. DAVID COULTER: George, I have not seen a lot of change in the last year or two years. I think your point is very well taken. When you think back to the Third World debt crisis faced by the banks, fortunately, we had somebody in Washington named Paul Volker. He allowed the banks to work out that Third World debt crisis over time. And, as a result, although we heard flurries of ups and downs about the potential failures of banks, not much happened. In fact, today I think you could write off remaining Third World country loans and no bank would fail. Somehow, when we began to deal with real estate, we treated that real estate asset in our own country much, much differently than we treated Third World assets. We weren't permitted in the banking system to work it out over time. Instead, we had to write things down to so-called liquidation value. As the mass of real estate built up, it became harder and harder to determine what liquidation value was. So I agree with you that the need to reform the regulatory process in financial institutions is quite important. The only positive sign I see is that the past CFO of Bank of America, Frank Newman, is going to be the Undersecretary of the Treasury for Domestic Finance. A very important position in Washington, both the OCC and the FDIC report to that person, and we're very hopeful that somebody from the industry will bring some new light there.

SPEAKER BROWN: George.

MR. BABIKIAN: I understand that what's really happened with the over-regulation problem is that we've had government allocation on credit. We've moved credit from the private sector to the government sector. In fact, we've really financed our deficit through the banks in the United States -- in essence, through all of us who are savers or depositors in financial institutions. Currently, we have the highest amount of government securities held by banks for the last 30 years. Currently, we have more government securities held by banks than business loans. So we've had this allocation by the agencies, and for good reason from the standpoint of bad loans certainly, but I think it's been over corrected, a switch from the private sector to the government sector. That's a hell of a way to have a forced savings program. I think, Mr. Speaker, that we need to do everything we can to emphasize in Washington the need to get this corrected. We need federal banking law changed. The legislation that was passed is much too harsh. It's for another time and another place. What California needs to have is a two-pronged approach to job creation and to provide capital for small and medium-sized business, which will be the engine for our recovery, and some leniency in the banking laws to allow our banks to perform the function they were chartered for -- to provide the financial tools and assets for businesses to grow. So, is there anything we can do, Mr. Speaker, to help on the united California front to be able to put pressure on Washington to get some change in those laws?

SPEAKER BROWN: Based on the representation of Mr. Kantor and the President's appearance here today, and given the number of Californians who are part of the Cabinet, plus the strength of our Congressional delegation, I believe there is. I believe that high on the agenda, for the Governor, for Mr. Brulte, Senator Roberti, and the rest of us who will be going to Washington on

March 8th through the 10th, will be the items you have just addressed. The response will be forthcoming then. Thank you. Miss MacNeil.

MS. VARI MacNEIL: Yes, Mr. Speaker. There's been a lot of talk today about the need for jobs, but I think we need to be very careful about what kinds of jobs we go about creating. The most important jobs, in my view, are manufacturing jobs. We must not lose sight of the fact that manufacturing jobs, particularly in the small- and medium-sized firms, are what is driving our economy today. They are going to be creating the jobs and creating the wealth in the future.

Now, it seems to me that also the thing that we have going for us as a state, the one thing that can't be bested by any other state or any other country is our human resources. We have to make sure that our people are trained, and that they are trained and targeted. Because, as Robert Reich would be the first to tell you, any other state, any other country, can go you one better; they can give you cheaper land; they can offer lower wage rates; they can offer better tax incentives. The only variable that you can control is your workforce. We have to be able to make sure that we're training our people to fulfill those manufacturing jobs that we should be creating. Now, as Steve Levy pointed out, we are in a very good competitive position currently for the kinds of jobs that are going to be needed in the future, particularly trade, high tech and tourism. But, if we don't educate our workforce so that they can take advantage of these high tech jobs, we will lose out because California will never be competitive when it comes to wages. We have to be able to create a high-skill, high-wage manufacturing base.

Actually, I'd like to turn this statement into a question for Steve Levy. George had mentioned that we need some changes in the banking laws to be able to support manufacturing companies. When a manufacturer goes up to a bank, he can get a loan for real estate, but can't get a loan to buy equipment. What I would like to find out from Steve is whether the Center has come up with any specifics that the Legislature could enact that would help small- and medium-sized manufacturers to deal with their cash crunch and also to deal with their workers?

SPEAKER BROWN: Mr. Levy.

MR. LEVY: Well, Mr. Speaker, I'm not an expert on these kinds of details. Let me give you a general answer. First, we've heard an offer of collaboration from the President. Many of the issues involving investment tax credit, investment funds, the financial system, are issues where the federal government has as important a role as the state. I don't know that I would see California going off on its own creating some specific investment program that wasn't coordinated with the federal government. But you raise a very important issue.

We've heard now, really, what's in the hearts of people that you brought to this room: the regulation and the business climate issues which we've been talking now for about 45 minutes. Ms. MacNeil was the first person, really, who got us back to the investment agenda. If you read the cover story in Fortune magazine about Andy Groves, a man who has led his company and his industry back to a number one status in the world, there was a very prophetic sentence: "invest or die." It didn't say do something else now and invest later. The President didn't say we have a terrible budget deficit, and what we need to do is reduce the deficit now and invest later. He said exactly the opposite. So we all need to find a collective will to make the second part of the agenda, the investment part, a reality now. Otherwise, what we leave to our children and our grandchildren may be a wonderful set of regulatory reform, but no training, no equipment and no future.

SPEAKER BROWN: Thank you, Dr. Levy. Chairman of the Assembly Revenue and Taxation Committee, Mr. Johan Klehs.

ASSEMBLY MEMBER JOHAN KLEHS: Thank you, Mr. Speaker. I have a question for Mr. Ueberroth, if he's still here. It's the issue again on Worker's Compensation. Mr. Ueberroth, many of us feel there should be some reforms in Worker's Comp, and I was wondering if you could do us a favor today and perhaps specify the reforms that you are supporting, and also tell us the number of jobs that you know will be created from the reforms, the income levels of those jobs, and whether you have knowledge of any companies which left California because of Workers' Comp costs who will return as the result of these reforms. I'm not being facetious; I'm being quite serious, because we often hear about these results of our decision making, but rarely are people able to quantify them. I'm simply posing the question to you, if you could help us in this regard.

MR. UEBERROTH: These conversations are being taped, and I'm glad that they are, because I must react to the question in a way that may sound facetious. Just leave the room with me now and stop anywhere you want with any business within one block of this place, and they're going to tell you Worker's Comp is keeping us out of business. Especially start with small and minority businesses. Now, if you want to talk about businesses that go out of the state -- we don't react when they do go out of the state -- I can walk down this row and stop at about every third person and they will tell you businesses that went out of the state because of Worker's Comp. You ask them if they will come back. I'm not going to make the decision for them, but without question, I can start with each of these gentlemen and most of the people in the audience.

It is a job-killing machine. Our Worker's Comp costs are among the highest in the nation, delivery of benefits to the worker among the lowest. The labor unions are telling you that. It's not for me to tell you that. Ask any employer, any little employer, in the state and they're going to tell you it's a disaster. Subsequent speakers will tell you the same thing.

As to whether they'll make a commitment to return, I will privately sit with you and talk about corporation after corporation. If you want to spend the time, I will privately do that with you. Corporation after corporation after corporation, but I'm not going to make a public display of them now, because they're not all so proud that they've left this state. We've caused it, Democrats and Republicans. I caused it, because I cast my vote, and I haven't raised enough hell. I'm raising it now. If you don't know that Worker's Compensation is destroying this state, then somehow we all have to come to Sacramento. I'll take you through specifics. They are legion.

ASSEMBLY MEMBER KLEHS: To let you off the hook on the last two questions, can I go back to the first ones which are: What are the specific reforms that you are proposing? How many jobs do you feel will be created as a result? The third question was: Can you tell us, perhaps, the income levels of these jobs? For example, we know that 800,000 jobs have been lost. They are generally in the income range of $29,000- to $45,000-a-year jobs. They're not low wage; they're not real high-wage; they're kind of right in the middle -- you know, $20 an hour jobs. That's what I am trying to determine here in terms of the specifics you're about to enumerate -- the number of jobs which you believe will be created and the income levels of those jobs.

MR. UEBERROTH: Well, basically, I'm not going to throw numbers around. I did tell you that what's happening in the street is that the $20-an-hour jobs are leaving, and they're being replaced. Because the woman still has to support her children; the man has to support his children; and so they accept an $8-an-hour job to stay alive. I refer you to janitors or anyplace else where people are at such a low-level income that they can't have a chance to have the dignity of a real job. As to the specifics, if you would change the job climate here -- not the business climate -- but the job climate, virtually every company that's move its people to other states would consider a return. This is a better place. They would come back. I'm not talking about the jobs that have gone way off shore, but even those have potential for returning. In the entertainment industry, there are a number of functions which they've taken to Korea and Southeast Asia. They're now finding efficiency levels at the $10 and the $15 per hour level, so they can begin to make sense of bringing those jobs back here. But, if they will come back here, they will jump over the State of California, because of our policies. They will be happily ensconced in Arizona and Nebraska and North Carolina and other places. We have to stop that. We owe that to our kids.

ASSEMBLY MEMBER KLEHS: We sent reforms to the Governor last year. Is it possible for you to enumerate some of the shortcomings in those reforms and perhaps, as I mention again, the specific reforms that you would propose on Worker's Comp?

MR. UEBERROTH: I'm not going to take you through the specifics. I don't know the specifics of what you sent to the Governor, and I think we're getting into a political debate. I think everybody here has the good intention now to pursue reform. Let's not point fingers at Democrats and Republicans. You can make a case that both are at fault. You can make a case that the Democrats are locked up by the trial lawyers. You can make a case that the Republicans wanted to use it as a fight in the election process. You can make a case for both of those. I might believe them personally. Get that behind you; come together and solve the problem. You've caused the problem, it's up to you to solve it. I can't give you specifics here.

SPEAKER BROWN: Mr. Bruce Lee.

MR. BRUCE LEE: Let me try to help you a little bit on that one. I'll get specific. Douglas Aircraft in Long Beach, California. Just a few months ago, I had 21,000 members working there making close to $20 an hour. After the last layoff that was announced and is all said and done, I'll have about 8,000 members. Now, if you talk to my partners at Douglas Aircraft, they'd probably tell you that that was in great part due to Worker's Compensation. Maybe it is, maybe it isn't. But let me tell you something that is a fact. Their only domestic competitor is Boeing up in Washington State. There's about $800,000 -- I might be off a couple of quarters there -- worth of Worker's Comp costs in one of the aircraft that is produced at Douglas Aircraft. That is about a 35 percent advantage for Boeing. When you're paying basically the same wages, everything's about the same, they're all built to certain specifications, that becomes a very big item, and it means, virtually, that they're not able to compete, and that's why those people are not working any longer. So that's the specific. Now, if that went away, would Douglas rehire all those workers? I would assume they would if they could get their orders back that they've lost because they couldn't compete. So I think that's something very real that we have to think about. It even has further fallout. We talk about the skills; I think one of the panelists mentioned the great skills that we have here. We're losing those skills, because the people who lose those jobs -- those highly skilled workers -- cannot live here any longer, and they are leaving. They're going home, wherever home is -- the Midwest, the South, the East -- and they can't afford to come back. So it's a very, very serious problem.

SPEAKER BROWN: Mr. Shapiro.

TOM SHAPIRO: I'd like to thank Mr. Speaker and the attendees for letting me speak. My issue is Workers' Compensation. If anybody questions anything that Mr. Ueberroth said, just look at small business. I have a company named Academy Tent and Canvas. It is a small business, and everything he says is true. Instead of expanding, we are looking at expanding outside the state. Instead of adding more people, we are not -- we cannot afford it. If the rates go higher, we may have to close down. We cannot even get insurance any more, because most of the carriers are pulling out, and the state's charging huge surcharges. It goes beyond that.

We are all focusing on businesses, but let's look at what Workers' Comp costs the City of Los Angeles, the State of California, and all the charity and non-profit organizations. I'm told the City of Los Angeles paid out over $80 million last year in Workers' Comp. I would estimate that about 80 percent of that is probably fraudulent. If we had that money, we could put it into education programs, non-profit organizations and inner city programs to get our state going again. This is true not only for non-profits, but also for the unions who are losing workers, because people are without jobs. I've been going around saying that, if you don't have employers, you won't have employees.

One last thought. The big problem is stress in the soft tissue, but, if we can't come up with a bill that can pass, why not do something new? Why not have Workers' Comp be self-funded and have an investigation fraud unit self-funded -- by pennies or a nickel on the dollar that we all pay in Workers' Comp -- to go out there and pursue the fraudulent claims and then prosecute them and put a mandatory jail sentence to anybody who creates fraud, which costs us so much money. Thank you.

MR. LYLE ADDICKS: I represent one of the few consumer manufacturing companies left. I compete everyday with Taiwan, and I do it very competitively. I think we've been given a lot of misinformation that we cannot compete with Taiwan, and I think Lee Iacocca showed that we can do it with cars. We can certainly do it with other consumer items, right down to televisions. We don't even build a VCR. I don't consider this low-tech industry. We do not have a stupid work force. Manufacturing is the only area that will ever be able to employ the masses. It is not all low-dollar pay. It's everything from the bottom to the top, and there is room for everybody regardless of race, regardless of color or sex, regardless of handicaps. I could take the chicken at Knott's Berry Farm that plays a piano, and I could find a position for it. I don't think we need to look into the future, into the high technology stuff. I think we need to go back to the future, get back the technologies that we gave away years ago.

SPEAKER BROWN: Mr. Jim Morrissey.

MR. JIM MORRISSEY: When trying to raise revenue to balance budgets, state, local, and federal governments pick on business to shoulder the burden. In many circles, it is the politically correct thing to do. Many think those profiteering Daddy Warbucks types are making too much money. Let those deadbeats pay for our budget problems. Let's raise corporate taxes and fees. Let's regulate the hell out of those people who are riding the gravy train. Let me tell you a little secret that business people understand, but not too many politicians seem to know. Business does not pay taxes or fees. Business collects taxes and fees from their customers and passes the money on to governments. When the AQMD levees a permit fee on the fast food broilers, the cost of hamburgers goes up. When Workers' Comp is increased on a bakery, the price for a loaf of bread goes up. Increase the regulations and permit fees on builders, and the price of houses and rent goes up. Increase the fuel tax, and the price of everything goes up, since almost anything you can think of is delivered by truck.

Well, if we can pass on fees and taxes to customers, then what are we complaining about? The truth of the matter is that manufacturers and other businesses have to be competitive with business in other states and in other countries. If we are competing against a company in Arizona or Nevada that does not have the burden of oppressive taxes or out-of-sight Workers' Comp, then we cannot pass the cost through and be competitive enough to get the work. We lose the contract. What does the small business do? We eliminate as much overhead as possible, freeze raises, lay off people, cut our own salaries and pinch pennies.

We, small business companies in California, have reached the saturation point; we don't have anywhere else to cut. Unless we have immediate relief in taxes, Workers' Comp costs, fees, and regulations, we will be forced out of business or out of California -- it's that simple. Why should entrepreneurs risk their capital in a state that is actively anti-business? They would be better off investing their money in stock in a company outside of California or moving to a state that wants their business and the jobs they will provide.

We need government to stop using us to raise taxes. We need government to stop excessive taxes on us under the guise of fees. We need government to stop over-regulating us. We need government to understand that taxes and fees on business cause unemployment and the loss of taxes. We need government to get off our backs and let us do what we do best -- create jobs.

SPEAKER BROWN: Mr. Ueberroth, the gentlemen who just spoke, talked about the need for government to pay some attention to the question of taxes on new and start- up businesses, especially small businesses. In the Legislature, Mr. Pat Nolan and Ms. Marguerite Archie-Hudson, among many others, have been very interested in enterprise zone legislation, an issue which has not yet been discussed. Given your work with the Rebuild Los Angeles Committee, I would like you to share some of your views on that issue.

MR. UEBERROTH: Thank you, and thank you to Mr. Nolan and Marguerite. Basically, I would ask people to erase from their minds enterprise zones as they know them. Since World War II, the private sector has not been involved in a major way in the inner city -- for reasons both right and wrong. If any of you believe as I do that the inner cities need a jump start in America -- not just in California, but in America -- and you believe that we need to have an area that we can look to where things will flourish again, some new type of enterprise zone is going to be necessary. It's going to take federal and state cooperation, and local cooperation. There is now a red line around the inner city. The red line says, "Do not invest in the inner city." It says, "Do not hire in the inner city; do not insure in the inner city; do not loan in the inner city." The red line says those things. Well, the truth is some people are proving that to be wrong, and the grocery industry is among the leaders in that area.

We suggest that you paint a green line where this red line is and provide incentives. Do not give away money; no checkbook charity; don't be like the government and drive up with a fire hose and sprinkle money on everybody. Provide incentives. In the case of Los Angeles, we have a very large geographic inner city that encompasses spots all over Southern California, including many towns and communities. Let's put a green line around that area, and let's provide incentives to the lending institutions to loan, provide incentives for employing, not a total incentive. The incentive is just to reduce taxes if you do something in the inner city. Do those kinds of things and top it off with what I hope the President will announce in his State of the Union, a state- and federally-sponsored law to allow the welfare persons to take their first income without losing welfare in the inner city.

If you put those kinds of incentives in place in the inner city, things will happen. Look what's already happening. Our only job is to encourage the private sector to be in the inner city. You're the government; you have to do your thing. If that happens, we can use Los Angeles as an example that will be very good for Oakland, very good for Detroit, New York and other places. The California people, this marvelous diverse group of people, want to make diversity work, have the entrepreneurial spirit, and with your help, a new kind of enterprise zone.

Don't fall back on any of the old types of enterprise zones, little geographic pieces, but something that encourages investment and still pays taxes. After all, if you take people off welfare, even if they pay a dramatically reduced amount of tax to start, they will get some dignity back in their lives, and you still get some money, versus no money. And then, as the people get their dignity back and are able to be trained for a job with decent benefits, you begin to take people off welfare. Mr. Speaker, I'm honored that you brought up the subject and allowed me to discourse on it. It's rather technical in nature; I'd be pleased to assist anybody who wants to pursue it.

SPEAKER BROWN: Thank you very much, Mr. Ueberroth. Mr. Argyros?

MR. GEORGE ARGYROS: I wanted to come back to one point that someone raised about the educational financing problems we face. We have talked about the University of California, the state university system, the community colleges, but there is one more leg to the stool that we should utilize, and that's the private sector, the independent colleges of the State of California. In these independent colleges, there is the capacity for about 30,000 to 35,000 students. That's a whole University of California campus. There is an asset there that can be utilized in some form of partnership between the private and public sector, and I hope that you, as legislators, will find ways to utilize that capacity in order to promote an improved educational climate in our state.

SPEAKER BROWN: Mr. Peltason.

MR. JACK PELTASON: I wish to endorse what George has said. Independent colleges are a very important component of our education system. I hope that the Legislature will provide the funds so that students will have a choice in access. I think our education system in the United States is wonderful, in that people do have choices.

We have in the State of California big research universities, small independent liberal arts colleges, secular institutions, religious institutions, and what we need is not merely to fund the institutions, but to make them available to everybody. We do not want a system in California where the rich go to private schools, and the poor go to public schools. We want to have a diversity of social economics as well as ethnic groups at all the institutions. I believe the independent colleges have the capacity to absorb the growing number of students who are now in the K-12 system and are making their way to higher education. In our planning, we do fully allocate as many of those students as we possibly can to the independent sector.

SPEAKER BROWN: Thank you. Mr. Trunec, the Vice President of Products for ARCO.

MR. BOB TRUNEC: Mr. Speaker, thank you very much. It certainly is a pleasure to be here, and I'd like to harken back to a comment that was made earlier this morning suggesting that an agenda for action should come out of this summit. Where are those points where action might be taken? I'd like to offer a suggestion for where that might be done.

Some of the folks who spoke earlier this morning said that the strength of the economy in Southern California depends on a number of things, but, to a very large degree, on the well-being of the manufacturing sector. Most of us realize that no real wealth is generated, unless something is made or produced, and that's what manufacturing does. It creates real wealth. It produces the $15 to $20 per hour jobs. We have a large manufacturing base in Southern California. As a matter of fact, it's probably the largest manufacturing area in the country. However, we, in Southern California, in many ways, are systematically destroying that base.

There are several reasons for the erosion of manufacturing in Southern California. Some are beyond our control, but some are not. One of the most significant causes, and one that this group can do something about, is the tunnel vision environmental policies which tighten the screws beyond the breaking point on emissions from stationary sources. That is, on emissions from the manufacturing sector. And this goes to factories and businesses, both large and small, employing hundreds of thousands of people. We are now at a point in Southern California where the fat is gone from the manufacturing sector. We're cutting into real muscle, in order to further reduce emissions in the future and yet, even if these emissions can be reduced in the way that is being proposed by the air quality management plan, key emissions will only be reduced by a couple of percent. The plan is gross overkill and yet, in order to accomplish it, we will destroy, or largely destroy, the manufacturing sector in Southern California. Turning viable factories into empty shells may be a way to reduce air pollution, but I don't believe that's what the majority of Californians want.

To set the record straight, let me say that I'm not advocating the abandonment of our objectives for air quality. Fortunately, there is a better way to achieve improved air quality in Southern California, and that's the approach that I am urging people to consider. Regulatory agencies concerned with air quality base their programs on a model. The model identifies the different sources of pollution and assigns various weights to those different sources. The model makes some assumptions; that model is flawed. Almost everyone now understands that, and this includes the California Air Resources Board. The model inappropriately emphasizes stationary sources, that is, factories, and under-emphasizes mobile sources -- cars, trucks, etc. We're basing air quality policies on this flawed model and that model must be changed.

Mobile source emissions are where the real gold is in achieving improvements in air quality in Southern California. The California Air Resources Board recently adopted a very tough spec for gasoline which will be effective in March of 1996. This tough spec will result in the same air improvement as one would get by removing 30 percent of the cars from the roads in the state. We at ARCO encouraged the Air Resources Board to adopt this tough spec. We did so for one reason, and that is there is better opportunity to improve air quality by approaching it through the mobile source emissions and take the pressure off stationary source emissions. There are a lot of programs that can reduce the real culprit, mobile source pollution, once the proper weight is given to mobile sources.

Today, I have two recommendations. First, insist that the current model be changed to reflect accurately emissions from mobile sources; and, second, that further emissions reductions on the stationary sources be curtailed after the year 2000. One can achieve almost all of the emissions control benefits, if they're designed into the air quality management plan by the year 2000 for stationary sources. Beyond 2000, programs should be adopted only if they are cost effective and can produce real emissions benefits. At the time ARCO asked the California Air Resources Board to adopt a tougher gasoline specification, we intended to make sufficient quantities of this new gasoline to satisfy the demand in California. Now, because of the pending stationary source regulations by the AQMD, we aren't so sure. It's going to cost us nearly a billion dollars to retrofit our refinery in this state to make this new gasoline. And yet, after we have made that investment, we know of no way to meet the currently proposed standards for stationary sources. Would you recommend to your board of directors that they invest a billion dollars, knowing that within a very short period of time, less time than would be necessary to recover the value of that investment, we will not be permitted to operate? We're wrestling with this problem and so is every other manufacturing company in the Los Angeles basin. I urge this group to consider changing the model in which emissions are predicted and to do something now that will improve the opportunity for business investment -- large business, small business, medium business -- in the manufacturing sector in this state.

SPEAKER BROWN: Thank you very much. Another new member of our House, from Marin County, Assembly Member Vivien Bronshvag.

<u>ASSEMBLY MEMBER VIVIEN BRONSHVAG</u>: Thank you very much, Mr. Speaker. First of all, I want to thank every one of you for coming, and I'd like to say, thank you for doing business in California. I really appreciate it.

My question has to do with some of the incentives that we've been hearing about. One, which the Governor actually specified, was net operating loss carried forward. The net operating loss carried forward is a very useful device for start-up companies. It certainly helps small businesses get started and to work into a profitable situation over a number of years. But frequently, over the course of the 1980s, this device was abused. We saw many companies acquiring debt to carry forward so they would not have to pay taxes. Can you see a reasonable way of our giving you a tax incentive that would not be so abused, but could, instead, be used to create jobs? I'd like to hear some comments from the business community about that.

SPEAKER BROWN: Any one of the members of the panel want to accept that challenge? George, go right ahead.

MR. ARGYROS: I think that there was abuse in a few rare instances, but, much like the savings and loan crisis, Congress over-reacted. I think that the tax loss carried forward is extremely important, and I think the abuses are really relatively minor and, hopefully, that they don't continue. There was a cycle in our economy during the 80s when, in fact, it was abused. You're right. That's not the case now; people have real losses, and it's going to take them years to recover. You need to give those companies, and they're mostly small and medium businesses, as well as large businesses, the opportunity to recover. They can do it everywhere else, but they can't in the State of California.

SPEAKER BROWN: Mr. Ueberroth.

MR. UEBERROTH: I have a little different view than Mr. Argyros. I would just say, stop the abuse in the early stages; don't allow it to be transferred. In California, most small start-up businesses, the entrepreneurial businesses, will lose money. There is almost nobody who starts a business and makes a profit from day one. But why start one in California, when you can't recover your investment?

So, as a start, you could specify that anyone who is starting up something new and who has a tax loss, will lose that loss if the business is sold. If you can't sell it, that stops the abuses, so you can protect yourself and, at the same time, you'll be creating a lot of jobs for small and independent businesses.

SPEAKER BROWN: Assembly Member Gwen Moore.

<u>ASSEMBLY MEMBER GWEN MOORE</u>: My question is to Mr. Ueberroth. I listened to your comments in regard to a new kind of enterprise zone, and I couldn't agree more, because the old one has not worked -- particularly for small business. You talked about tax incentives as part of a new enterprise zone. What are some of the other things that you have in mind?

My concern is with small minority- and women-owned business and others who can't have or don't have the access to capital necessary to get them started. There are a number of new ideas and a number of new companies, but they just don't have the wherewithal. Also, as we begin looking at these new enterprise zones, I hope, as part of your vision, you will incorporate some technical assistance to these start-up businesses and some relationship to the state colleges and universities and community colleges to assist in educating the work force.

MR. UEBERROTH: Well, in this case we have almost perfect agreement on technical assistance and monitoring and mentoring. All three of those are essential for the small and the start-up business. In our preliminary work, we were focusing on the person who just has an idea and may not yet have started up a business. There are so many minority, women-owned businesses in the inner city -- the 55,000 I talked about. Just dream for a moment that each of them could add just 10 jobs. Somebody asked, how do you affect your deficit of $8 billion? You're almost half way or about one-third of the way there. The incentives should be to make it better to be in the inner city. For 40 years, things have gotten worse in the inner city. Technical assistance, some kind of help, for anybody who's employed, some kind of credit, doesn't remove their taxes but gives a helping hand. It is tougher to employ somebody in the inner city; it's tougher to secure them in the inner city.

So all those things have to be taken into consideration. I would encourage other businesses to mentor. There should be some advantage for them to mentor but, unless we focus on that, the inner cities have the ability to take us down in America. You have been a leader, and I encourage you to continue to be, and we'll do everything we can to help you.

SPEAKER BROWN: Ms. Archie-Hudson.

<u>**ASSEMBLY MEMBER ARCHIE-HUDSON**</u>: Thank you, Mr. Speaker. I wanted to visit for a moment the enterprise zone concept again. And I agree with my friend, Peter Ueberroth, that the existing kinds of enterprise zones don't really do much. One of the reasons they don't is that they have no investment in the community. They import into that community jobs for which they get credit and do nothing for the community. The Los Angeles Revitalization Zone was established through legislation which I carried last year. That legislation made the assumption that one of the ways to revitalize a community is to make some investment in raising the economic conditions of that community. One way to do that is give enterprise zone credits or some tax credits for the actual hiring of businesses in that community. We have, in fact, married business zones and residential zones, so we could track the involvement of business in trying to provide economic opportunities for businesses and residents in the community.

When people ask me, "What revitalizes South Central Los Angeles?" I say, "What does it take to revitalize Beverly Hills?" The elements of a successful community do not change, whether you're talking about South Central or Beverly Hills or New York or Rome or anything. I think one of the challenges of this is to ask yourself what all of those elements are. It goes to what we talked about earlier, about the marrying of the human capital infrastructure with all the rest of it.

Part of what I want to know from you, Peter, if you'll comment for a minute, is what kind of infrastructure master plan that marries all these things together have you put in place for the rebuilding of South Central Los Angeles?

SPEAKER BROWN: Mr. Ueberroth.

MR. UEBERROTH: We, as a private sector group, have no authority to put together anything. It's really the job of the state, working with the federal government, to put in place the infrastructure that will attract the things you need. We have no disagreement; there are people who are jumping ahead not waiting. Ron Burkle, on this panel, has jumped ahead. Smart and Final is a good example for you to look at. They opened a new store, and they are very pleased to say it's the highest volume store and highest profit store but, more importantly, it's something else. It's almost a no-theft store, because they've learned. You see, the private sector's learning some real good lessons. They hire from the neighborhood and they work with the neighborhood by asking, "What do you want? What should we be? This is your place; we have to serve you." And they learn to adapt the way they do business.

So the private sector has been slowly, though not fast enough, moving into the inner city in Southern California, with incentives that provide the kinds of things you're talking about where there can be little businesses that have local ownership, to use your Beverly Hills example. In the inner city, you need big business and little business. I'm pleased that the Gap is moving a store in, because you shouldn't only be able to shop at the Gap in Beverly Hills or in the San Fernando Valley. But, by the same token, you need the small business and the medium-size business next to the GAP, so that it becomes a neighborhood of employment.

ASSEMBLY MEMBER-ARCHIE HUDSON: With all due respect, Peter, that is not the example in South Central Los Angeles. If experience today is any indicator, most of South Central will be built with no impact on employment on the persons who reside in those communities, because those are not the communities who are part of the labor force that's rebuilding South Central.

MR. UEBERROTH: What, basically, I see is that the major work is being done by Black contractors, but no one asked their address. For the most part, you're dead right. The way to change that is for you to provide the incentives, so that the person offering the job knows that they need to hire somebody from the neighborhood in order to get the incentive -- not just hire somebody from another state and move them in for a 60-day job and send them back home. Any incentive that you pass should benefit the person within the geographic area that you're trying to affect. The benefit has to be both for the employer and the employee in that area. If that kind of legislation becomes part of the new enterprise approach to South Central or to East Los Angeles, or to Pacoima, or to other areas that are neglected in our community, then we are going to make real progress.

SPEAKER BROWN: Thank you very much, Mr. Ueberroth.

Now we'll go to Mr. Tapan Munroe. Mr. Munroe is the Chief Economist for the Pacific Gas and Electric Company in San Francisco.

MR. TAPAN MUNROE: Thank you very much, Mr. Speaker, for the kind introduction. It is a privilege to be here this afternoon. Mr. Speaker, I would like you to appreciate the fact that I have departed from the time-honored economist's tradition of using charts. This is a significant cultural change for me, so please bear with me. (laughter)

Let me first give you a little background in terms of economic development issues and policies. Too often, I think, we tend to talk about economic development strategies without looking at the underlining economic problems and issues. This is undoubtedly the worst recession we have experienced in this state since the Great Depression. I must point out, after listening to an entire day of speakers and economists, that there is no single reason for California's economic problems. This is extremely important for us to appreciate, if you're thinking about meaningful strategies of economic development for the state. The problems exist not only because of defense cutbacks, but also because of corporate downsizing, business retention and business retraction problems, and the hollowing out of our urban core, which you have heard a lot about today.

Let me at the outset say that the key issue is jobs, but, while I say that, I must point out that jobs will not be created without significant growth in economic output. I'll address the key issues in a series of comments and then briefly mention the public policy imperatives of these issues.

First, let me go back to the issue and topic of corporate downsizing. It is necessary for many of the Fortune 500 companies to downsize in order to survive. It is, at the very least, as big a problem in our state as defense cutbacks. The reasons behind corporate downsizing are several. Number one is global competition and the rapid rise in employment costs relative to capital costs. Hence, businesses are replacing people with capital. Of course, technology change, which has resulted in a rapid drop in cost in computerization, is also a factor. The Fortune 500 companies downsize. As they downsize, they hope small businesses will pick up the slack and that, I would suggest, is the major challenge that this country and this state faces. And I must point out this is an enormous challenge, and we must address it.

Let me move on to the second issue, which is the pattern of job losses in California. Most of the job losses in this prolonged downturn have been in manufacturing, wholesale and retail trades, and in construction, not just in aerospace, which most of us seem to discuss all the time. The most recent statistics bear this out. We've talked a lot about the fact that a large part of our job losses, 40 percent to be precise, are because of the problems of the U.S. economy. This is interesting, but the fact remains that a large number of those jobs are not going to come back when the U.S. economy gets better. The fact of the matter is the U.S. economy has been back on track for two years. The recession has been over for two years, and the problem remains. It's a national problem of job growth and, particularly, a problem in California. I do not see economic growth of 5 to 6 percent in the national economy, which will result in job growth in the U.S. and California.

Let me also mention, when we discuss economic development policies, we must realize that California's economy is not a monolithic, homogeneous economy. Political boundaries never really determine economic activity. We at least have three Californias with enormous differences in their structure and their performance in this current economic recession. About 85 percent of the job losses in the current recession have been in Southern California, with some impact in the Bay Area and Central Valley. These are very different economies; we must pay attention to regional differences as we develop economic development strategies.

Let me also mention that the importance of Southern California in the national economy is, perhaps, even greater than we have talked about. Nearly 30 percent of the total U.S. jobs lost in the last two years have been in California. Los Angeles County alone is responsible for 18 percent of total U.S. job losses in the last two years and for 22 percent of the defense job losses. It is extremely important for us to realize that California can be a very important demonstration project for all kinds of public policy initiatives from Washington.

Of course, I cannot ignore the issue of out migration of businesses and the issue of business climate. This is certainly very important, but we cannot explain, nor would I try to relate all of California's problems, to business retention and business retraction problems. The best estimate, the most optimistic or pessimistic -- it depends on your outlook -- is that, at the most, 5 to 10 percent of the job losses in the last two years can be contributed to business out-migration. In this context, I am particularly reminded, as we in our company and other corporations throughout California, try to develop economic development strategies, to make sure that we retain the right businesses and the right industries and attract the right industries. That's a very important issue.

While we have talked about many of the problems and difficulties of this state, let us not forget that, according to Fortune magazine, California has 33 percent of America's fastest growing companies. The San Francisco Bay area has 23 out of the top one hundred. According to Inc. magazine, California had 23 percent of the fastest growing small companies. Let us not lose sight of the fact that there are a lot of things right with California.

Let me now move to the last topic of my brief presentation, and it deals with public policy imperatives. A great deal of attention is now being paid to high-end, high-wage, high-tech job creation. That's where most of the attention is; that's where most of the interest is; that's where most of the excitement is. This is fine, but, what we need to pay a lot of attention to, is creating the mid-range, $15- to $20-an-hour jobs. Those have evaporated; those will continue to evaporate; and this, the middle part of our economy, is hollowing out. We are talking about mid-level manufacturing; we're talking about low-tech manufacturing. That's where the major impact is going to be, and that's what the major job growth challenge is going to be. I'd just like to suggest that to you.

I think that the role of research in the universities has already been mentioned -- I don't need to repeat that. It is extremely important to realize that the factors that have given rise to Silicon Valley and the creation of the next Silicon Valley are extremely important. We must support regional initiatives such as Joint Venture: Silicon Valley, which you'll be hearing about, and I don't need to dwell much on that.

Lastly, let me suggest that, unless all Californians participate to their fullest potential, this state will not be able to maintain its current standard of living, let alone make progress. In this connection, I'd like to suggest our paying a great deal of attention to economic development of diverse urban communities. This concept implies reducing the inequities in education, employment and income within the urban core. The strategies include micro-enterprise development, business incubators, and, of course, we need to pay a great deal of attention to creation of new businesses that might win contracts as major corporations downsize in outplace.

In summary, let me say that the future of California is not what it used to be. We need to develop multifaceted strategies, ranging from high technology to small businesses, to enervate the urban core. I think it is not proper, I think it's risky, to base economic development strategies on one or two issues.

SPEAKER BROWN: Dr. Edward Blakely is a professor of City and Regional Planning from the University of California at Berkeley and a person who has conducted studies and observations of the regional economies. Dr. Blakely.

DR. EDWARD BLAKELY: Thank you, Mr. Speaker, Members of the Legislature, and panelists.

I'd like to reflect for a few moments -- for those of us who are old enough -- that, during the depth of the Depression, when times were very bleak, California was not in very good shape. We had a large influx of immigrants from Oklahoma, and not from Asia or Mexico. During the depth of that period, California was planning, not crying, not thinking about yesterday, but thinking about tomorrow. We created a daring and bold water plan, an exciting education plan, and a very bold transportation plan. That was the basis for the development of this state. Not looking backward, but looking forward. I'm reminded today of that, because we are now thinking of what we must do. And what we must do is to look forward again. California is a diverse place. I want to look both inside and outside.

On the inside, as Tappan has already suggested, California contains at least three different economies. Each of them is larger than the combined economies of 40 other states. They are strong and diverse. Any policy we develop should recognize the diversity of those economies.

One segment of California's economy we must look at very carefully is our agricultural economy: $18.5 billion in cash receipts this year for $5.5 billion worth of exports. California has a very large, progressive, and strong agricultural industry. That industry supports processing and other activities which we must preserve.

Currently, we are planning 52 new cities in the Central Valley to accommodate 3 million more people by the turn of the century. Those 52 new towns will gobble up something like 15 percent of the land mass, if we plan them the current way. We could accommodate the same population with less than 2 percent of the land mass being gobbled up. In the future, we'll need that land. We won't be able to turn pavement into agricultural fields. We'll need those people as well. We will need them in the Valley, but we also need them to be productive. I've looked at California as a productive place.

The state hired me to look at 14 competitor states -- each of those states has designed programs that built on its regions and built on its places. Let me show you some of the things that they've done. First slide, please.

What we've learned by looking at other states is that they've taken a set of policies that look not at an industrial attraction, but at an industrial policy. Our near competitors, as Peter Ueberroth has suggested, are able to attract certain industries by focusing on where those industries will thrive best. They look at the section of their state that that industry will be compatible with. Not an overall policy, but a sectional and a regional policy. They start positioning those regions rather than just promoting them. We promote all of California, we promote the many Californias, but for what? That's the question we have to ask ourselves. Northern California is very different than Southern California. And, as we develop our promotional programs, we should know what position we want to take relative to those vast economies.

We need leadership. Leadership is essential. Not just conversations about California, but direct leadership about its many segments. All leadership cannot come from Sacramento. We need leadership in each of our regions; we need regional councils. Other states are forming them. Those leadership councils form the basis for attracting industry and keeping industry in a locale.

We also need technical assistance, not more giveaways. California gives away an awful lot, as I'm going to show you. We have to have a decentralized program that builds on its human resources as the basic infrastructure. Setting up such a program about that makes a lot of sense. Rather than attracting firms, they will attract people. People start firms. Thus, we have to attract people, too. People who can start firms. And attract them to the right parts of our state.

The second slide. I want to show you some things that you may not know about California. California already offers a lot of incentives -- 44 of them in all. Our strongest competitors, Georgia and North Carolina, offer far fewer incentives. What they have are targeting incentives, which reach the right place, at the right time, and bring together the right people. Their incentives eliminate gridlock. In some of these states, you can get a permit in 20 to 30 days. In our state, you can't even find the right agencies in that amount of time. So, it is not the mix of incentives you need, but the direction of the incentives. We can put together the right infrastructure, if we can find the right incentives for the right places. We have to manage the images of California and then project the right images to the right places.

Last slide. California is already competitive in terms of the incentives it offers. Where it lags is in building communities. We build houses, but we don't build communities; we build infrastructure, but we don't connect it to people; we build things, but we don't make them work. What we have to do is to manage our capital in ways that make things work. We have to have a clear industrial policy. California is now in the middle of the world. We used to think ourselves on the edge of the Pacific, but you don't think that way now. Given the great trading blocs -- the Asian-Pacific bloc and the European bloc -- we are right in the middle of $5 trillion of trade, and cruising at $1 billion a week. Just some small portion of that can restore our manufacturing and distribution base. That's where our growth is going to come from.

To compete in that market, we must build the right infrastructure. The Port of Los Angeles, the Port of Oakland -- all of our ports -- must be competitive in world trade and international trade.

We need an agricultural trade policy that builds on our Central Valley. We need policies that help us build the manufacturing base in Los Angeles; help build the bio-tech base in San Diego and the East Bay. We have to have policies that differentiate between places and sectors; we have to have regional, environmental ombudsmen that help us get through those processes. We need a business welcoming program. Most of the states we looked at have special business welcoming programs for the kinds of industries they want to attract. They have the industrialists, the governor, and the governor's staff, ready to welcome those enterprises. To pursue them, if necessary.

Several states we looked at devoted their lottery money, not to education, but to economic development, because they figured that if they had enough economic development, they'd have more than enough for education. Maybe we should do the same. The interaction between good people and good industry is what California has always had. What we forgot is our mission and our direction. Our destiny is to reinforce the links between our people and our places. California has plenty to give, and we've got plenty to give it. Thank you.

SPEAKER BROWN: And now, the symbol of organized labor in the state of California, who will address human resources issues. A former Cabinet-level official and the Secretary of the California AFL-CIO, Mr. Jack Henning.

MR. JACK HENNING: Thank you, Mr. Chairman. We appreciate your sponsorship of this conference. We congratulate you for initiating the idea, and we commend the Governor for embracing it.

It was my intention to speak hurriedly on unemployment and the budget crisis, but in view of the distortions voiced here in the matter of Workers' Compensation, I am compelled to reply.

Companies are not leaving California because of the Workers' Compensation situation. Workers' Compensation costs represent 4 percent of employers' costs in California -- 4 percent. But they are high costs. Our benefits are low (right down there with Alabama and Mississippi). Thirty-five states have higher benefits for workers than California, and the fraud issue has been used to freeze those benefits. That was the political strategy of our opponents, to raise the fraud question to hold off any action by the Legislature to increase benefits. We stand with all who are against fraud. We supported the Presley law, the most strict anti-fraud Workers' Compensation law in the nation. It is a felony, under that law, for a worker to give false testimony in a Workers' Compensation hearing. It is a felony for an employer or a lawyer to give false testimony. So, there's no need to lecture us on fraud.

We acknowledge that the total costs of Workers' Compensation in California are the second or third highest in the nation. This is not because of benefits, not at all; nor is it because of fraud. It is because approximately 40 percent of the cost of Workers' Compensation goes to doctors and hospitals. And I ask, where are the employer lobbyists? Where are the great lobbyists in Sacramento that business finances? We introduced bills to control the medical costs of Workers' Compensation but there was no support from the business world. We stood alone.

Last year, the Industrial Indemnity Insurance Company conducted a study which revealed that $230 million a year is placed on the back of the Workers' Comp system by doctors who refer injured workers to clinics and laboratories in which they have an economic interest -- a shameful conflict of interest by the medical profession. We stood with the Legislator who introduced the bill to eliminate that. Where was big business? Where were all the people here today shouting about fraud? Where were they? We stood alone. For reasons best known to themselves, they didn't raise a hand to eliminate that kind of corruption. They wouldn't touch it.

And there's another aspect to the costs. The workers don't set the premium rates that burden employers. Not at all. Under our system, there is a quasi-public body called the Workers' Compensation Bureau, which is financed by the insurance industry of California. That bureau recommends rate increases to the Insurance Commissioner. Last year, the rating bureau argued that the premium rates on employers should go up 22 percent. The Insurance Commissioner held a hearing in San Francisco. Labor and small business testified against the increase. I looked for the giants of industry; I looked for all the great corporations that have said here today that they were going to leave California. Not a word. The Insurance Commissioner cut that proposed rate down to 2 percent, but this is a continuing problem. So, it is not a matter of simplicity at all when we talk about the cost of Workers' Compensation. The matters I've raised should be addressed, and we would stand with all who'd move in that direction.

On the matter of unemployment, jobs. We have petitioned the President that this should be his first concern as he tries to give sustenance to a stricken economy. And we note with pleasure that he did give attention to that last evening. We hope that, in the manner of Franklin Roosevelt, he will make employment his first concern. That will take a stimulus, because he will balance the cost of the stimulus with business concessions, taxation, and investment. That's proper. But we have to have that stimulus. Never in this century, save for war, or during preparation for war, has the private enterprise system ever given us anything like full employment. We need the government. And big business should back the Clinton proposals. Business can't survive without the purchasing power of men and women at work. So let there be no hereditary prejudice against Democrats in power and against the spending proposals that will give life to an economy that is sorely stricken.

There was something amiss this morning. All of the testimony on unemployment statistics was almost dehumanizing. And it took a woman named Angela Blackwell to bring a dimension that no one else touched. Mr. Ueberroth ventured into that area this afternoon when he talked about the inner city, but in all of the discussions this morning, the human dimension of unemployment was never touched on by any of these corporate figures. What do they think their people are, things? Did the Bank of America high command ever consider, when they cut the workday in half, thereby reducing by one-half the income of those people, what it meant to the family? What it meant to the bread winner? Did they ever think of that? We don't believe they did. But Sister Blackwell got to the heart of it. She got to the problem that no one talks about. It was touched on by Ueberroth, how it hits African-Americans and Latinos. Month after month the unemployment rate of adult Blacks is twice the overall average. Let the captains of industry think of that tonight. And young Blacks, in particular, suffer 5 times the rate of unemployment known by young whites. Do they think they can escape? They can't.

Two years ago, a friend took me on a tour through the wealthy areas of Los Angeles. I saw what I never thought I'd ever see in America. Planted on the manicured front lawns were signs that said, "Jones Security" or "Smith Security" and underneath each one, "armed response." They can't live on their own streets by reason of their doctrines that look with contempt on the poor.

We hear today, and even Clinton says, "No endless welfare." We agree on that. But, if they can't find a job, then what? Let them starve, they say. Well, this economy has never provided full employment. Are we going to let them starve? You damn well better not let them starve in this city of Los Angeles, or in Chicago, or New York, or Philadelphia. What happened in the Rodney King case is a classic example of what can happen. Middle class African-Americans were not on the street; middle class Latinos were not on the streets; the disenfranchised young were on the street. Did the captains of industry ever think of this? Do they ever think of the moral consequences of their actions? We think not. So we say, change your philosophy and change your behavior before it's too late. Crime, poverty, and urban decay mark every city in America. Crime and poverty are a terrible price to pay in this society which thinks itself superior to so much of the world.

On the budget crisis, I sympathize with the Governor. Diane Feinstein is the most fortunate politician in the world ... (Laughter) ... she lost that gubernatorial election. God knows she'd be up here today sitting next to Willie and saying, "What do we do next, Willie?" (Laughter) But the budget crisis is here. The great divisions are here. Last year, $300 million was cut from the University of California budget. It was a striking down of the source of intelligence for a highly technological society for the future of the country. Last year, we had schools closed. Education should be the first priority, but it is bigger than that. We need money. I submit that Jesse Jackson was speaking with wisdom when he said of the federal budget, "Where is the money for the budget? Get it from where it went." And where did it go in the Reagan years? Nothing trickled down; the bounty of the system was given to those who had so much, and those who had so little got nothing.

The Governor should understand he can't get the money for that budget from the homeless. They are all over the state. He can't get the money from the unemployed. We have 1.5 million unemployed in this state. We have a higher unemployment rate than the nation by 2 percent; we are over 9 percent. He can't get it from the students or the young; he can't get it from the seniors who are now being challenged with assaults on Social Security; he can't get it from a middle class ridden by unemployment uncertainties. He can only get it from those who have it; he can only get it from the wealthy, the banks, and the corporations. A hard line? Listen, the hard lines are down in the ghettos; the hard lines are with the poor; they are the ones who deserve prior consideration. And, if they are not cared for, then discord in our society will be inevitable. It is the moral responsibility of the federal government to serve as a residual claimant of all those tasks in society that private enterprise cannot reach. But allowing for that, the residual claimant in its dimensions is massive. So government must give what private enterprise, for whatever reasons, cannot give, rational employment to the masses of this country. Thank you.

SPEAKER BROWN: Thank you, Mr. Henning. Let me now introduce the head of Pacific Telesis and incoming chairman of the Business Round Table. Ladies and Gentlemen, Mr. Sam Ginn.

MR. SAM GINN: Thank you, Mr. Chairman, elected officials, and my colleagues from industry.

It's a Friday night. A lovely party was taking place high above the lights of the city; the conversation was friendly. After dinner, the Governor of Alabama rose to welcome his out-of-town guests: ten CEOs and other potential investors from around the country. Then he introduced the locals -- legislators, members of the business community, members of organized labor, and he pointed out that each of us had a very special reason for being there. We were born there; we went to school there; we had families there; we married someone from there; or, in the past, we had shown a special affection for this state. The agenda for the weekend was pretty straight forward. 'We were to learn that Alabama was open for business, and then on Saturday afternoon we were to see a football game played the way college champions play it.

The next morning, after a breakfast of grits and home-made sausage, which wouldn't go over very well in this state ...

SPEAKER BROWN: Oh, now ...

MR. GINN: Well, Mr. Chairman, maybe we have something in common.

After breakfast, work began. The room was equipped with a large screen and a computer system that had programmed an aerial photograph of every square foot of the State of Alabama. The system was demonstrated in a very, very special and simple fashion. The Governor said, "Sam, I have on the screen the farmhouse in which you were born. You see it? That old country road has been paved for many years. As a matter of fact, many things have changed in the last 55 years. But you know, now its time to build an electronic farm on that old farm. See, the interstate highway now runs within two miles of the old home place. That would give you access to the transportation hubs of both Birmingham and Atlanta. You see the railroad tracks? It would be easy to construct a short-side leg into a loading dock. See the Coosa River? Remember as a kid how you used to fish there? Well, the fishing is still pretty good. Just a few minutes from the old home place, the State Pension Fund is building a Robert Trent Jones Golf Course. Maybe if you had some free time, you could play some golf." And then he paused and he pointed outside, and he said, "See that helicopter parked out there? It will be available tomorrow morning in case you'd like to get a bird's eye view and meet some of the local citizens."

"Now, let me introduce Fred." Fred stood up and smiled to the audience. "Fred is important to you, because he gets your permits in 30 days." At that point, a group discussion ensued about the importance of land-use planning and the environment. And one of the legislators stood up and said, "Look, that's not the issue. Most business people understand the importance of land use planning and the environment. What investors want are timely decisions. So, Fred drives the process. He calls every agency that has to approve the new project into his office and, within 30 days, they give you the terms and conditions under which you can locate in the State of Alabama." In the afternoon, we went to a football game. I flew home Sunday without taking the helicopter ride.

What are the insights to be gained from this experience? The competition for investment capital is intense. That is particularly true when that investment results in high-skilled, high-waged jobs. We have to recognize that there is a dog fight out there, not only among the states, but among other nations as well. Capital may be the first commodity that flows, irrespective of state or national boundaries. So, the lesson here is that our competition has sharpened their tools and have become very aggressive. They may not have the inherent advantages that we have in California -- in fact, they do not.

My second example further illustrates what we must do to create high-skilled, high-wage jobs in this state. I belong to an organization called the Business Council. It is basically the top 100 companies in the "Fortune 500." Within the past year I had a conversation with five of these gentlemen. The subject of this conversation was the economy, and it drifted to the State of California. I decided to take an informal poll. So, I asked, "How many of you have operations in California?" All did. Then I asked, "How many of you have an in-plant expansion of existing operations?" Two did. I thought that was a good sign. And then I asked, "How many of you would launch a new project in California?" None would. And I got from those decision-makers the issues that we've talked about here today. The permitting process, Workers' Comp, liability exposure, and probably most important of all, lack of skilled workers and worker-training programs to make people productive.

My sense, as I listened to this discussion, was that our problem goes beyond the facts to the perception that California is indeed "not open for business." One of them said to me, "Do you believe that you could construct the Golden Gate Bridge in California today, given the existing permitting process?"

Having said all that, I think there's a certain unfairness about it. There are many good things about this state. We are the world's seventh largest economy. During the '80s, we grew jobs at a faster rate than Japan or Germany, or the U.S. economy, for that matter. We have an excellent post-secondary education system; we are the world's leader in R & D -- the seed bed for creating jobs. And we have real examples of firms that have succeeded.

Since 1984, Pacific Telesis has grown a worldwide wireless business. We have developed a worldwide reputation for technical expertise. We have created a California center of technical excellence. From here in California, we send people to engineer new cellular and paging systems in Germany, in Spain, in Portugal, in the United Kingdom, in Japan, in Korea, and Thailand. And if we look at what's happening in the world, as governments continue to privatize and liberalize their policies, enormous future opportunities exist. And as you know, Mr. Speaker, we are now prepared to separate this activity into a new company, as someone suggested earlier, to reinvent ourselves. Wall Street has already indicated that over $750 million will be raised to launch this effort, and you can see the positive nature that this will have on California. And I thank you for the support of that project. In addition, Pacific Bell has committed $1 million to upgrade all switching systems to digital by '97.

California is not running on all cylinders; the figures tell us that. We've heard it all day today. What are the solutions? Let's get busy on "California is open for business." Let's get those "dissatisfiers" that we've heard about all day on the table; let's get together, let's work through them; and let's solve them, so that people who have capital are willing to come to our state and invest. Let's plan the infrastructure for the next century.

We've talked about water and transportation, but what I'd like to say to you is that telecommunications is probably the infrastructure that will determine our competitiveness for the next century. Not enough attention is paid to that except in my industry and my company, and we need a real force in this state behind us creating the most modern telecommunications system of the world, because, as I have said, it is the basis of a competitive future.

Now, in addition to being incoming President of the California Business Roundtable, I head the California Education Committee, and we really need to reform education. The California Business Roundtable has a comprehensive set of recommendations on the table. They include "transition-to-work problems" and one of the critical issues facing this state, our dropout rate. My sense is the reason kids drop out is they don't see how they can benefit from the system. By the tenth grade, we should prepare them for professional certification programs; we have to identify industries. In the third year of their education, they should be working half-time and going to school half-time, so that, when they are certified, they have a job.

We have to introduce technology into the classroom. We are about 25 years behind in using technology to help teachers do their jobs, to train teachers, to send remote information into the classroom. It's crucial that we introduce technology, not only for learning, but for efficiency. We need the expansion of charter schools, and I'd like to compliment the Speaker and the Governor for the bill that was passed last year which created a hundred charter schools. They will, I think, become the basis for redefining what education should be in our state.

Mr. Speaker, thank you very much for this opportunity. I know that by working together, we can make great progress in solving this state's problems.

SPEAKER BROWN: Many members of the Assembly put together individual mini-summits, which preceded this summit in Los Angeles. I was able to attend some of these gatherings, including those put together by Mr. Ferguson and Mr. Horcher. I attended two in my own area, one in Santa

Rosa, and one in Marin County. The Marin County mini summit was put together by Vivien Bronshvag. An individual made a presentation there, and I insisted that our people, who knew nothing of him, except through his writings, see if they could find him. We were fortunate enough to get him to participate in this panel. Ted Gaebler heads his own company, which advises people, particularly at the municipal level, on resource use. He is also the co-author of Reinventing Government. Ted?

MR. TED GAEBLER: Thank you, Speaker Brown. My interest today is in helping to engage you as "change" agents about government. Bill Clinton ended his Economic Summit last December with a segment on reinventing government. In fact, government needs to change to do all of the things you've talked about that we need to do here.

Let me try to make the connection between government and the economy, if I can. The first slide indicates that we have an economic base, which, multiplied by taxes, equals yield. This is a basic government formula -- it's been true for centuries. The economic base, whatever taxes are applied to that economic base, produces the yield -- which you call revenue -- which then enables government to do the re-investing in education, job training, infrastructure building or rebuilding, securing the safety net as so ably addressed by Mr. Henning. The quality-of-life services, in general, are produced by the yield, or revenues, the government provides. Also, the ability to minimize regulations and maximize incentives, is produced by the revenues from the economic base through our tax system. Clearly, government and the economy are directly tied -- something that not a lot of people fully understand.

The book David Osborne and I wrote has to do with re-inventing government, changing government. Let me just make sure we have the right audience. How many of you prefer to have no government of any kind? I just wanted to double check; every once in a while there's an anarchist in the group. (laughter) Secondly, how many of you want all the governments that you have to stay just the way they are? Okay, so you have joined me as change agents. We want some government, but we don't want the governments we have.

Government is a huge industry. Let me just give you an indication of how big, and then talk about the state of government and how it can be changed.

If I can have the second slide? There are 82,570 governments in the United States: one federal (obviously), 50 state, 3,000 county, 19,000 city -- of which California has about 460 cities and 58 counties. Together, as an industry, the federal government spends $1.5 trillion; the rest of these governments combined are another $1 trillion industry. We have 18.6 million people in America who work for government and another 660,000 elected officials. I'm not sure that doesn't mean they don't work for government, it just means that they're a different category of people. Roughly 19 million people, one out of nine Americans, work for government

Frankly, we are not beloved very much by the folks. Everybody seems to want government to change. The role that we have assigned to government has changed throughout history, throughout different countries, and, certainly, here. All over the country, all over the world as a matter of fact, the role that we are currently assigning to government seems to be in the process of change. In 1976, Sweden was spending 72 percent of its Gross Domestic Product on governmental services. England was spending 56 percent. Today, Sweden has dropped down to spending only 48 percent; England has gone from 56 percent to 42 percent and, they tell us, will be under 40 percent by next year. Here in the United States, we have gone from 20 percent of our GDP in 1932 (one-fifth of every dollar) to the high water mark in 1976 of 38.4 percent. We virtually doubled the amount of dollars we were willing to spend on governmental services during that period.

Since 1976, if I can have the next chart, that has dropped down so that we now are only spending 32 percent, which represents about a 20-percent drop in the last 16 years. This is not just here in California; this is nationwide. So whether it's a Communist country, as in Russia, or a socialist country, or a Marxist country, or a capitalist country, the people of the world seem to be in an era where they are turning away from government providing the kinds of services that we used to provide. The question, then, is why have they turned away?

There are lots of answers to that. Very quickly, obviously the anti-Vietnam sentiment changed the American psyche in the 1970's; the anti-Watergate thing -- Nixon resigned the White House on August 9, 1974; the "Me" generation; the "Yuppies," who prefer to have their cars rather than investing in infrastructure or roads. On top of those reasons, we found that government got "out-competed." We in government did not understand that we were in a competitive industry, and that we had people nipping away at our heels. A couple of examples: From 1972 to 1975, the Federal Post Office spent three years debating whether to go from 11-cent stamp to a 14-cent stamp. Meantime, Federal Express was born and proved that, in an information age, people would pay $12.75 to get something there overnight on a guaranteed basis. Today, the Post Office delivers 62-percent junk mail, plus Christmas cards and bills. I keep trying to tell my spouse, "Don't Federal Express our check back to Sears." We got out-competed. We didn't understand it.

There are 3.25 million cops in the United States today. People in the protective service industry. 1.25 million of those are on the sworn public payroll, which means that two million cops are in the private sector, now engaged in a business that we in government thought was exclusively ours. The fourth largest police department in California is Bechtel Industries. That firm has more cops on its payroll than any city except Los Angeles, San Diego, and San Francisco. More cops on its payroll than the City of San Jose. Again, we got out-competed, and we didn't understand the change that had occurred.

If such factors have made the chart go down since 1976, is there any possibility its going to come back? Now that Billie Clinton is in office, is there any chance we're going to have more government dollars at the federal level? Clearly, you understood the program that he talked about in terms of deficit reduction: we are reducing the deficit as rapidly as possible; it's the only thing we're going to be allowed to do at the federal level. So, there aren't going to be any federal dollars. Let me have the next chart, if I can. It indicates the increase in dollars needed for federal debt service, making it actually impossible for him to spend any money there.

Let me quickly jump ahead to the last chart, because that is another indication of the dollars that are not going to be available to us. If I can have the next chart? The dollars that are going to be available to government are being shrunk, not only shrunk by property tax limitations such as in Proposition 13 -- by the way, 44 states have a clone of Proposition 13 -- but, as the chart also indicates, because since 1970 -- someone probably suggested even in 1960 -- middle-class family incomes have been dropping. When middle-class family incomes drop, not only do jobs disappear, but the amount of sales tax and income tax drops. So, we've not only limited property tax, but this chart indicates that for the next dozen years or so we will have a drop in sales tax revenues and income tax revenues. It is pretty clear that we're not going to have dollars available to us in government, from any source that we now know of, to provide those kinds of things.

I'm going to jump ahead and indicate that there are three sources of income that might be available to us in society, as we talk about restructuring what is available to provide quality-of-life services. The first source of revenue is to re-use the existing revenues that we already have. That's the easiest one. The overwhelming conclusion of our book is that we have good people trapped in bad systems in government; we have terrible budget systems; terrible accounting practices that do not reward income production; procurement policies that are rooted back in another era; slow use of technology; and antiquated governmental processes.

When I ask government people all over the country what kind of revenues are you spending supporting outmoded, archaic systems, the answer is that 15 to 30 percent of existing government money is spent supporting archaic, outmoded systems that the public employee hates and you see as non-essential expenditures. By the way, the 30 percent is from Bob Stone, Deputy Secretary of Defense, who indicated that one-third of the defense budget -- now $280 billion -- is spent supporting outmoded and archaic systems. That's a tremendous source of revenue. It's not very sexy to have people focus on changing the corporate culture, as John Baskins Ellis said, but that is, in fact, a major activity that elected officials can help perform.

The second source of revenue is to do something that allows local governments in this state to get revenues from the 56-percent service economy. Six states allow a local income tax. There is no local income tax here; there is no ability at the local level -- counties, cities or schools -- in this state, other than business license tax, to be able to get at this revenue. If Red Adair lived here, the millions of dollars of profit he brought back from Kuwait would not be taxable, because he is not sales taxable for what he produces. Our company and other consultants don't pay taxes to the local level. We've relied on the state and federal people to do the taxing for us. We at the local level do not have that capacity in this state. You might want to take a look at that.

And thirdly, the last chart shows that we have an ability to use dollars already available in the private sector. If I asked an audience, "What percentage of your quality-of-life services come from state and local government?" The answer is 12 percent. Twelve percent of the quality-of-life services that America buys, they buy from state and local government. Eighty-eight percent of the dollars we spend on non-profit agencies or private sector agencies: we get pizza; or our Safeway; or our home mortgage payment; or we give to a church of our choice; or we have a private doctor. We in government have long thought that the sun rises and sets in city halls, or in county courthouses, or in the state house. In reality, there is a lot of money out there and the American public is more interested in getting 100-percent "bang" for their buck than they are in getting 12-percent "bang" for their buck. And, so, we need to take a good look at that.

Finally, the success of this Summit should not be judged by what the Legislature or the Governor does in the next 30 days. The success should be measured by what the media does, and what the business people who are here do, and what the non-profit representatives do. Because all of us need to re-educate the American public that the role of government has shifted. They have withheld money from our spigot. We need to re-educate the American public that we can no longer have a champagne appetite, when, in fact, we have a beer budget. We need to help them restructure the resources of society. The media has a role in that; the business community has a role in that; and many other folks have a role in that. So, this is exactly the right forum, exactly the right group of people. If those of us in this room cannot change government, who can? Thank you.

SPEAKER BROWN: I'd like now to go to the microphones among the honored guests.

Mr. LUIGI VERNOLA: Thank you, Mr. Speaker. My name is Luigi Vernola. I am a small business person. I also am an elected official from the City of Norwalk, and I would like to thank Assemblywoman Grace Napolitano from the 58th District for allowing me to be here to represent my small business and the City.

I'd like to address just a few things that have affected my business in the last four years. The biggest one has been Workmen's Compensation and health insurance. I'd like to suggest that you study the potential benefits of uniting disability insurance system with Workers' Compensation. Also, provide some training programs for business on how to work with insurance companies to pursue fraudulent claims -- develop employee fraud prevention programs. Workers' Comp costs has hindered my ability to hire additional employees and made it impossible for me to expand to other fields.

Medical insurance costs. Address the high medical costs which are draining the resources of small businesses. It is very, very difficult to keep qualified employees, when you cannot afford to supply them with adequate insurance.

Also, another factor that affected my business has been the regulations, over-regulations, and the regulatory agencies. It's not so much the regulatory agencies themselves as the people who work in the regulatory agencies. When someone comes out to my business and tells me that I've done something wrong and they are going to cite me, because they have to justify their employment by going back to their boss and showing that they have done something for the day, that disturbs me very, very much. I would like that addressed.

I am sorry that my time is limited, because I would like to raise other issues. I assure you that my participation in this conference is going to be beneficial to myself and to my community. I want to thank you again for bringing the people here to participate with you because, when you work with the people, you're going to solve the problem.

Thank you very much.

SPEAKER BROWN: As indicated by one of the panelists earlier, this is, frankly, just the beginning. I think individual members of the Legislature are going to convene town hall summits in their own districts to further expand the opportunity for citizen participation, just as you have advocated in Assemblywoman Grace Napolitano's district. Now let's go to the right side.

MS. GLENDA HUMISTON: Thank you. My name is Glenda Humiston, and it's been my pleasure to serve as coordinator of an economic task force in Sonoma County for the past year. In particular, for ten weeks last fall, we utilized a team of researchers from U.C. Davis to look at the economy in the North Bay area and help us design strategies to compete into the next few decades. Most of what they came up with echo the Vasconcellos and the Ueberroth reports, and I find it encouraging that these recommendations do seem to be coming to some consensus.

Two areas that they touched upon have not been discussed today, and I feel need to be part of a heated discussion sometime tomorrow. The first is permitting. We've heard the problems associated with permitting, and they found plenty of horror stories during their research effort. Yet, they went a step further and tried to find the underlying cause of the permitting nightmare we currently have in this state. And what they found is that a lot of local communities are using cumbersome, costly, and difficult permitting processes as a growth management tool. It is vital that any piece of an economic development plan designed by the Legislature or the business community of the state include a look at planning and growth management. This is going to have to include pieces of permanent urban boundaries, with minimal densities and speeded-up permitting for building. As Mr. Blakely mentioned, agriculture relies upon the preservation of prime farmland, and we have seen some terrible losses there.

The second area they brought out concerned jobs. I have heard a lot today about the need for jobs in this state and yet, when I look at the areas being discussed, given the huge losses in aerospace and technology, I find it difficult to believe that those areas will be able to do little better than recoup their losses, let alone create the vast numbers of new jobs we need in this state. Tourism has some potential for job growth, yet the large percentage of those jobs do not pay salaries adequate to live in this state. We have an embarrassing richness of natural resources in this state. Agriculture, timber and fisheries are some of those areas. My only complaint with Mr. Blakely's presentation is that he mentioned the Central Valley. Some of your higher-end agricultural products and timber products and fisheries are along the coast, and policies must take that into account.

In this report on Sonoma County, I will point out that this team found that our farm gate value last year was $325 million, just for Sonoma County; and that's just raw product. Using a very conservative multiplier of three, and throwing in the tourism that is related to ag, this is a $2 billion industry for Sonoma County. Without increasing production or increasing tourism, but by simply processing, packaging, labeling and marketing every bit of the raw farm product we produce in that county, we could increase that to a $3.6 billion economy. These are not farmworker jobs, these are accountants, graphic designers, etc., who function as high end service people to a productive industry. Thank you.

SPEAKER BROWN: Thank you very much. Now let's go to the microphone on the left.

MR. KEVIN PETERSON: Thank you very much, Mr. Speaker. My name is Kevin Peterson. I'm the President of the South Bay Association of Chambers of Commerce, representing 10,000 businesses between Long Beach and Westchester in Southern California. We are delighted and very pleased to have the opportunity to be heard in this kind of a forum. We congratulate you for putting this together.

I want to bring to your attention something that everyone in this room is a stake holder in. It is a $9.6 billion potential loss to the State of California. It represents 54,000 jobs or more, high wage jobs. It represents the remainder of the aerospace industry here in California. We need to stand behind the effort to save the Los Angeles Air Force Base in El Segundo. The L.A. Air Force Base Space and Missile System Center is the lynch pin, the queen bee, if you will, of the entire aerospace industry. This is not a potential base closure issue. This is a base relocation issue. New Mexico is doing everything in its power to steal our base from Los Angeles, and we can't let that happen. So we ask you to join with Congresswoman Jane Harmon, who has also got the help of Congressman Julian Dixon and Congressman Jerry Lewis, and Assemblywoman Debra Bowen, in sending a clear, strong message to Congress and the Department of Defense that California is the home of the Space and Missile System Center.

We thank you very much for the bills you have supported that Assemblyman Tucker and Senator Beverly have authored which have solved the housing. It is only the beginning of our fight because, once we keep it off the list this year, we have got to continue to work towards two years, and we challenge you, at this Summit, to sign a letter across everyone participating, sending a strong message, we're going to Washington next week and we would love to hand-carry that. Thank you very much.

SPEAKER BROWN: Thank you very, very much. Go ahead, Mr. Zax.

MR. STANLEY ZAX: Thank you, Mr. Speaker.

SPEAKER BROWN: We're not going to discuss Workers' Comp any more.

MR. ZAX: No, I don't want to discuss Workers' Comp, because I don't know anything about that side. I want to discuss something that I know, and it may be controversial, but I'd like to put it out as an agenda topic for the members of the Legislature, and for the public at large. We heard stories about competition, state against state. Twenty-five years ago, I worked as a lawyer for a gentleman by the name of Conrad Hilton, who lived here in California, and my assignment was to buy hotel-casinos for him in Nevada. The purpose 25 years ago of buying hotel-casinos in Nevada was so that the Hilton Corporation, which was then the largest convention hotel business in the world, could benefit from the growth of the convention business in Nevada. In hindsight, it's been a very spectacular investment. I want to bring everybody to today's sense. First, legalized casino gambling is going on all over the United States. You've seen proposals in different places. It has different legal problems. I think you've seen it spread far beyond Nevada. Secondly, we have a very important resident of California by the name of Kirk Kerkorian, who's now building the largest hotel-casino in the world -- 5,000 rooms -- in Las Vegas. The purpose of this hotel is to attract families. Where are they going to come from? They're going to be California families, in large part, spending their travel and tourism dollars, their discretionary income, on a holiday in Nevada.

I think that the time has come for California to seriously take a look at the subject of legalized casino gambling; the opportunity to create high-paying jobs in the tourism industry is absolutely astronomical. If California is not going to compete with Nevada and with the rest of the country, and with the rest of the world, for that matter, as legalized casino gambling expands, then California is going to exclude itself from a large part of the growing travel and entertainment industry. So, I raise that subject, knowing that it could be controversial, but maybe people should think about it.

SPEAKER BROWN: Let me indicate that this evening's activities involve a full and complete discussion of the North American Free Trade Agreement.

I hope to see you at dinner. Thank you very much.

ECONOMIC SUMMIT

BILTMORE HOTEL

LOS ANGELES, CALIFORNIA

CONDUCTED

BY

SPEAKER OF THE ASSEMBLY

OF

THE STATE OF CALIFORNIA

WILLIE L. BROWN, JR.

FEBRUARY 17, 1993

SPEAKER WILLIE L. BROWN, JR.: If we could please come to order. Members, honored guests, kindly take your seats so that we may commence this morning's session.

Today, the second day of the Summit, will be a little more difficult to manage, I think, because we have four different panels. Each panel will go for an hour-and-a-half. Then there will be a break and a new set of panelists will participate.

The first panel discussion will be devoted to investing in people. I'd like to call on our first presenter, the President of Occidental College, formerly the head of the National Science Foundation, a man who is a scientist and engineer by training, but who has chosen to invest in and direct people, Dr. John Slaughter.

DR. JOHN SLAUGHTER: Thank you, Mr. Speaker, ladies and gentlemen.

Abraham Lincoln once said that of all the forces acting upon man, change is the most cruel, and, yet, the one that is most necessary. Change is truly overtaking California. It is being seen first in our schools, in K-12 and in the colleges and universities throughout the state. The demographic changes, the economic pressures and the global competition, in a world that is becoming increasingly interdependent and information-based, demand adjustments in the manner in which we address the problems facing the State of California. This is particularly true of higher education. We need to begin to think thoughts that, for many years, have been unthinkable in California and to have the courage to break from the bondage of policies that may have served us well in a golden past but no longer mesh with reality.

We need to find new solutions to our problems. The fundamental premise on which I think we must begin our reasoning and search for new solutions is this: the economic, social, and political conditions of California in the 1990s cannot sustain the generous levels of state-supportive higher education which were assumed in the 1960 Master Plan for Higher Education. Our problems are not primarily the temporary adversities caused by an economic recession. These adversities are serious, and they are part of the problem, but the difficulties we face are much more fundamental. Indeed, they are in many ways analogous to the forces which are causing the present far-reaching wrenching and disruptive restructuring of many of America's largest and historically most successful corporations. In the business world, as everyone knows, the enormous upheavals we see at GM, Sears, and IBM, and many other giants of American business and industry are the result of vast changes which have occurred in financing, manufacturing, technology, marketing, and communications. In my view, there are analogous changes occurring in the environment in which California higher education now operates. These adverse conditions are not short term; they are long term. They are not minor, calling for adjustments at the margins. Rather, they are major and probably will require restructuring similar in magnitude to what we are now witnessing in the corporate world.

Let me be more specific about what I mean when I talk about these problems. There are three that I will touch on very briefly. First, the economic and budgetary assumptions of the Master Plan are no longer valid. The 1960 Master Plan is a blueprint for the state to provide high quality collegiate education to every qualified student, with no tuition and very low fees. Behind the generosity of the plan is the belief that the California economy would continue to grow at a robust rate. It assumed that the higher education part of the state budget would continue to occupy a favorable place with respect to K-12 education, prisons, AFDC, and medical aid to the poor. In other words, the framework of the Master Plan did not and could not foresee such things as Proposition 13, Proposition 98, and other developments, where virtually 100 percent of the spending reductions that take place have to occur from the roughly 20 percent or less of the budget which is not mandatory.

The second problem is, in a test of who pays and who benefits, the current policy is regressive. The generosity of the Master Plan was of great benefit to the prosperity and economic growth of California, but now, as we grapple with different problems, we find that it no longer applies. Related issues of no tuition charges in the public universities, a generous state subsidy to all students regardless of need, and low priority on financial aid, are creating grave problems for us, because no tuition has been an article of faith in our public sector. Even families of the rich and the near rich have enjoyed generous state subsidies -- so generous that financing of these subsidies has dwarfed the funding of student financial aid, such as the need-based Cal Grant Program. So now, as we find ourselves in much more difficult financial circumstances, yet still operating under the very same rules, serious anomalies and inequities are apparent.

The state is now unable to provide adequate funding for the Cal Grant Program. Only one-quarter of the eligible needy students are receiving it. And last year, 15 percent of the funding was cut. And yet, at the same time, the state continues to pay generous subsidies to students of high-income families to attend our public universities. When all is said and done, under present higher education policies in California, we fund segments, institutions, and programs first. The funding of students, especially funding based on financial need, is a second-order priority. The alternative that I propose to you, and it will constitute a fundamental change in policy, the one that I think the state needs to have take place, is to fund students first. You will see, when you go outside, some little buttons that I hope you will pick up that simply say, "Fund Students First." We are urging that we make need-based student financial aid through the Cal Grant Program the first priority in the state's higher education budget and, in this way, funding for students in both the public and independent sectors, who demonstrate financial need, will come before all other higher educational programs now competing for scarce dollars. Moreover, if we are to fund students first; that is, if we are to make need-based financial aid the top priority, then it follows that Cal Grants should be set at a very high percentage of the state's real cost of education in the public universities. And in this way, students from higher-income families would receive a very low state subsidy, but eligible students from lower-income families would have greater access through the Cal Grant Program.

Finally, the third problem that I would mention very briefly is that the expansion of capacity to accommodate enrollment increases, if done without first restructuring the operational ground rules, will be prohibitively expensive. If the greatest need in California is to prepare for the arriving, larger undergraduate enrollment, in my view, each new public campus that is created in this state should not have to replicate the standard array of graduate programs, faculty, and facilities. California State University Chancellor Munitz, for example, should be commended, I believe, for the courage he has shown in calling for the opportunity to innovate the charter campuses in the expansion in the State University. If we don't break away from the mold in this way, we will fall far short of giving collegiate opportunity to the next generation of students, and that would be tragic for this great state. Assembly Bill 4270, three years ago, set forth a policy to encourage enrollments in the independent sector, thereby reducing some of the need for expansion in the public sector. We need to realize that every enrollment in an independent college or university in California comes at no capital cost to the citizens of the state, and this is important, given the fact that there is some excess capacity available in the independent colleges that should be utilized.

To be sure, Mr. Speaker, the problems we confront are more extensive and complicated, and the alternative solutions available to us are more numerous than these brief remarks would indicate. But one truth, it seems to me, is overarching and it is this. Business as usual in higher education will not suffice. The Master Plan that guided us for 30 years is a great achievement and enabled California's system of higher education, for a long time, to serve as a model for our nation. But times have changed, and we should take note of this somber fact. The corporate giants of American business, which today are undergoing such traumatic stresses, are precisely the ones which in earlier days were the greatest successes. The message here is unmistakably clear. If we are too slow in adapting to meet the demands and new conditions, it becomes exponentially more difficult and expensive to change and, if we wait too long, it will be too late, and the future will be the present come back to haunt us. Thank you very much. (applause)

SPEAKER BROWN: Thank you very much, Dr. Slaughter.

Dr. Gerald Hayward is the former Chancellor of the Community College System, and now the Deputy Director of the National Center for Research in Vocational Education located at the University of California. I have asked him to address the transition between school and work. Dr. Hayward.

DR. GERALD HAYWARD: Thank you very much, Mr. Speaker. I'm going to focus my remarks today on high schools and community colleges and focus on what I consider to be, based on five years of experience in working with the National Center, some of the most promising practices in vocational education throughout the land. I would be remiss in not mentioning that there are many, many fine individual programs in California but, in many ways, we are lagging other states, in that they tend to have a more systematic, organized way of addressing these major problems regarding preparation of the work force of the future. We are trailing, I think quite badly, states like North Carolina and South Carolina and Oklahoma, in preparing students for work.

Yesterday we heard from several economists. I was reminded of a comment that Bill Campbell once made on the floor of the Senate that if all economists were laid end-to-end that would be a good thing but, in yesterday's remarks, the thing that really impressed me more than anything else is how many economists made the case that education is an investment, and that all of the strategies set forth for pulling California out of its current status included investing in education. Now, as an educator, that's the case I normally have to make. Thank God, I don't have to make that today. It was made better and more articulately yesterday by those speakers.

When we think about vocational education, particularly in high school, I am afraid that our images aren't very positive. Many of us think about broom holders or tie racks or, in more sophisticated programs, shoe shine stands and that's the old Voc Ed. We are not talking about those kinds of programs. Voc Ed is often seen as a dumping ground for students who are unable to do quality academic work. We are not talking about those kinds of programs, either. Voc Ed is often characterized as education for other people's children. We are not talking about those kinds of Voc Ed programs, either.

There is a new, emerging, exciting vision of vocational education, which as we've seen as we've gone around the country. And I think, if we can focus on the new vocational education, we can do a much better job of preparing the work force for the future. Let me begin by establishing a vision for this new vocational education. It's education at all levels, preparing individuals, including members of special populations, for substantial and rewarding employment over the long run. Vocational education should act as a catalyst for a shift to an economy dominated by a skilled work force, one that maximizes both global competitiveness and individual potential, one in which firms use more skilled and productive workers and provide the appropriate incentives for education and training. That is, a high-skilled work force, rather than an economy with low average skill levels, limited opportunities, older conceptions of work organization and increasing in equality in skill and education.

The goals of such a system would include broadly based, more challenging education for all, including a variety of generic and academic skills required in a world of shifting occupations and necessary for a high-skilled work force, not narrow, job-specific skills. It would prepare students for jobs in which they have substantial opportunities to advance, to move up job ladders, education for careers, rather than for entry-level jobs. The focus is on upward mobility, and schools and colleges must offer expanded opportunities for students to learn in a variety of institutions and settings.

Education is not limited to school. It takes place in the work site and in other places as well. And schools and colleges must provide for a smoother transition from secondary to post-secondary education. Colleges need to send stronger signals to high schools about what is needed to do college-level work. And they need to work on curriculum jointly. Schools and colleges must provide access to quality vocational educational programs for all students, and unfortunately, as we look across the country, we find that many of the quality programs are not located in the areas where the students have the greatest need. We've got to make a commitment to having quality access for all programs. And schools and colleges must ensure that all teachers, not just vocational teachers, are engaged in preparing students for work. There was something said yesterday, and I'd like to re-emphasize it today: schools and colleges must adopt accountability mechanisms to ensure constant program improvement. There have to be consequences for good programs and consequences for bad programs.

Now, there isn't a single model that encompasses all of these worthy goals, but there are several examples, and California has some of them. The problem is that there isn't a critical mass. There's not enough activity going on to positively impact the state's economy. The first of these particular models is integrating academic and vocational education, and that is a concept which beefs up the academic content of programs in vocational areas and also places the academic instruction in some kind of work-related context. People learn by doing, and one of the most widespread and common findings in our research throughout the country is that programs that relate vocational and academic programs tend to be the most effective.

Another is tech prep, which is connecting better high schools and community colleges, and having faculty members developing curriculum that spans the two and connects them well. A third is integrating schools and work academies in California. It is a perfect example of places that link business and school with mentoring activities provided by business, and there are young apprentices, as Sam Ginn mentioned yesterday, involved in actual work experience and actual on-the-job work during the school time and enhanced work experience and theme schools. Now, if you couple those kinds of proposals integrating academic and Voc Ed, integrating high schools and community colleges, and integrating school and work, and you add the fourth dimension, accountability, holding people accountable for performance, you then have the beginnings, I believe, of a revolutionary new program in vocational education that will contribute to improving the quality of the work force of the future.

Thank you very much. (applause)

SPEAKER BROWN: Thank you very much, Dr. Hayward.

Dr. Blenda Wilson is Chancellor of the California State University at Northridge, in Assemblymember Paula Boland's district. She has been asked to address the importance of higher education in securing the future of California's economy. Dr. Wilson.

DR. BLENDA WILSON: Thank you, Mr. Speaker, distinguished panelists. I am very pleased to participate in this Summit, and I thank you for the opportunity to speak about the role of higher education in securing the vitality and economic viability of our state.

As an educator, I, too, was delighted yesterday to hear so many speakers at this conference note that a continued investment in education is essential to California's recovery. Clearly the prospect of a low-skill, low-wage work force is a totally unacceptable vision to most of the people in this room. But listening carefully, I also noted that the positive assertions about the importance of education were not immediately accompanied by passionate proposals to increase the funding of the higher education enterprise right now. So, in trying to understand the reasons for that curious omission, we may gain some insight about the relationship between the role of public higher education and the agenda of this Summit.

I think it is important to acknowledge, first of all, that in creating a system of public higher education that promised opportunity to every citizen who could benefit from it, California expressed a view of individual worth unparalleled in human history. This public system asserted that a large proportion of our citizens, with a wide range of interests and intellectual capacity, would be able to achieve economic and social mobility for themselves and contribute to the collective society through high quality accessible higher education. That was, and remains in my opinion, a noble vision. If we believe that investments in people are essential to our economic prosperity, then why didn't someone suggest additional funding, if only to save me the embarrassment of having to mention it. (laughing) I think there are two explanations.

First, while the public believes strongly in higher education as a generic good, many in our audience are frustrated by the difference between their perception of what our institutions do and the contemporary reality. Let me give you one good example. There is a persistent belief in California and across the country that students who enter a four-year university straight from high school and study full-time for four years will then graduate. Not so. Since 1980, according to the American Council on Education, three out of four undergraduate students who followed that pattern graduated in 5.5 years. To complicate matters further, as early as 1970, 43 percent of college students nationally were part-time; more than 50 percent of traditional college-age students were working while they were studying. In the CSU, the proportion of part-time and working students is much, much higher than the national average, and yet our public in California is very upset today that our students are not finishing their degrees in four years. The public perception has not caught up with the reality of college attendance in our time. Secondly, and perhaps more importantly in explaining the lack of a new fiscal commitment, the public is not sure that an additional investment in our universities, as they currently operate, would focus directly on the policy and social issues that concern them -- that concern the participants at this Summit. I submit to you that public higher education can and should play a more central role in helping to address some of the critical social and economic problems California faces today, and I'd like to propose how that might be done.

This would not be the first time that higher education has been called upon to accommodate the needs of the broader society. The creation of agricultural and mechanical colleges in the 1800s, the passage of the G.I. bill in the early 1900s, and the extraordinary national investment in research during the past 40 years represented dramatic changes in the traditional role universities in their time. We have discussed the importance of different public policy, tax and regulatory incentives to stimulate business development. Similar changes in the public funding of higher education could have similar results. The benefit to the state would be that pressing issues could be addressed by our universities, where we already have the best reservoir of intellectual resources probably in the world. The benefit to universities would be that their contributions to the public agenda would be clearer to the public upon whose support we depend.

To be sure, much of higher education's role is quite traditional -- creating and transmitting knowledge, teaching young people to think and reason, preparing them for a career and a responsible civic life. It goes without saying that these responsibilities are its foundations, and those functions must be supported sufficiently to serve student needs and to preserve the extraordinary investment this state has already made in public higher education. But beyond that, in much the same way that the federal government and research universities have developed specific partnerships to serve the scientific, technological and research needs of the country, the State of California could design new relationships with various public universities to meet contemporary public policy needs. These new relationships should not be prescriptive or a new version of system funding, for example, but they should provide incentives for institutions with appropriate faculty interest and talent to conduct activities, demonstration projects -- activities that can be pursued by reallocation of limited funding, or, on some occasions, through private funding.

There are three specific areas which represent urgent state needs in which public higher education can make an important contribution, perhaps in partnership with state government, non-profit agencies, and business. First, higher education should be a resource and an advocate for the reform of elementary and secondary education. The deep and abiding public concern about the quality of early schooling is one that preoccupies all of us in this room. As the Hutson report indicated several years ago, "If every child who reaches the age of 17 between now and the year 2000 could read sophisticated materials, write clearly, speak articulately and solve complex problems the notion of a global economy and the translation of what that looks like in the curriculum of a school. What I'm concerned about, specifically -- let's just use an example -- is foreign language. We have a tremendous amount of research on language acquisition that would suggest that it's the elementary age at which we best learn the acquisition of a second language. And yet, there's something about us that says, "We don't really teach this until secondary school. You've got to be in ninth grade before you can take Spanish, or French, or something like that." Now, I don't know that that policy can withstand the demands of a global economy.

I'm hoping that investment in people means precisely that we will honor, hold up, build upon relationships between kids and teachers. That is to say, what separates a kid who is at risk from a kid who is not at risk is a relationship. The ability to have someone with whom you can talk to, get feedback from, get information from, clearly understand the world and the rules of the world and the rules of the game within the world, taught to you by a mentor, a parent, someone who occupies that very significant adult role in one's life. And it's unfortunate, but -- and Member Delaine Eastin talked about it very succinctly -- we've cut a lot of our relationship people out of our schools. Every time I see a budget that comes across the desk and someone starts talking about a budget reduction in K-12 education, that translates in my mind as cutting my relationship builders. You are taking adults who have the prerogative, the time, the ability, the skill; our nurses, our counselors, our psychologists, our teachers, our aides -- people whose job it is to build a vision about where you can go from 125th Street to become a superintendent.

Now, what I understand to be true is that, until and unless we get serious about that kind of infrastructure, all this other infrastructure conversation in my mind doesn't really translate. I mean, I understand the economic terms, but I don't see it necessarily manifesting itself in the world of K-12 education.

The last and certainly not least in this investing in people formula, I'm hoping, will mean an investment in training. K-12 education is undergoing the same kind of tumultuous transition that many other organizations are going through in this state and in the country. And it means having to do business with kids in a different way and doing business with different kids than we have ever done business with before. It means talking to homeless children about a variety of issues, the likes of which we never thought we would be in the business of having to talk about. It means having to respond to needs and unmet needs of children, the likes of which we didn't even contemplate were going to be on the social horizon. What it means is we've got to train people, and, in many cases, retrain people.

of residents unsponsored by health insurance of any state in the nation. And let's be clear about what "unsponsored" means. It means you have no health care card in your pocket for obtaining health care -- not from business, not from government, not from labor, not from anyone.

The problem manifests itself in a vicious cycle. The cost of health care is speedily becoming more unaffordable to individuals and businesses, particularly our small businesses, where about 75 percent of our unsponsored are attached to the work force. As health care becomes more unaffordable, more of our residents become unsponsored for care. Most of the cost of the care for these unsponsored, numbering in the millions in our state, is transferred to the insured, which in return contributes to the unaffordable cost of health care, and so it goes.

Of course, this cycle is not the only contributor to high costs in health care. President Clinton mentioned this at the National Economic Summit in Little Rock. He mentioned it again yesterday in his remarks to us. No matter how we measure our health care, costs are high in proportion to what we have to show for it. It would be one thing to have the highest health care costs in the world and be able to claim that we have comparably high measured outcomes for the expense, but alas, we do not. So, as we say in our office, ipso facto, something must change.

Mr. Speaker, you have long recognized that there is a critical imbalance in the marketplace in terms of some businesses participating in purchasing health care for their employees and their dependents while other businesses do not. As part of reforming our health care system, it is time for the purchasing portion of the business community to recognize that imbalance and join with us in seeking equitable ways of correcting it. Mr. Garamendi has put on the table a bold reform package of his own. The California Medical Association has continuously sought to negotiate a legislative solution. Other broad-reaching reforms have been deliberated in the Legislature. However, so far, policymakers in California have seen fit to take smaller steps toward the solution and, as is often the case, what California has done is a model for part of the national solution.

Last year, Governor Wilson proposed, and the Legislature successfully negotiated, in a bill authored by Assemblyman Burt Margolin, two of the critical elements of the managed competition model of health care reform. The first of these elements in health insurance underwriting reforms guarantees availability and fair rates. California reforms are superior, because they apply to all products in the small business market. The second element is a Health Insurance Purchasing Cooperative, HIPC, to us policy wonks, for small businesses, which is being organized by us at the Major Risk Medical Insurance Board. Our HIPC has many of the critical features of the managed competition model, and they are: uniform benefit package; modified community rating with no questions on health care on the application; employee choice of health plans; competition between health plans based upon price and service; and data collection for review of quality. Ultimately, successful reform will require some kind of a budget that is enforceable to control cost. I, for one, appreciate President Clinton's courage in keeping this issue on the table. Many of us are painfully aware that it is very difficult to produce a popular solution to health care system reform. We may be approaching the birth of a solution to our health care problem in Washington, D.C., but let us make no mistake about it -- our economic prosperity is very much attached to the success of health care reform. Without reform, health care will continue to take an unjustifiable amount of our resources that are critically needed in other sectors, sectors like those you've heard about already this morning.

California has more at stake in the success of health care reform than any other state in the nation, particularly as we look to small businesses as a source of our economic vitality and jobs. It is time to lengthen our stride, to unify our efforts in support of critical change. We, at Major Risk MIB, have faith in your potential and ability to achieve these ends.

Thank you very much, and God bless you in your deliberations.

SPEAKER BROWN: You have heard from the four presenters. Let me go now to Commissioner Garamendi, who was mentioned by Mr. Ramey, and who clearly has a perspective on what we should be doing to invest in people. Insurance Commissioner John Garamendi.

INSURANCE COMMISSIONER JOHN GARAMENDI: Mr. Speaker, thank you very much for the opportunity to be here and to listen to these presenters who have, I think, very well articulated the problem.

All of them seem to be saying one similar thing. And that is we need to make critical investments, and that means changing many of the patterns of expenditure that exist within our economy today. Where is the money going to come from to make those investments? I don't believe the Japanese are going to come over here and invest and do these things for us. It's going to have to come from our own economy. I would suggest to you and to the Members of the Legislature and the Governor that there are enormous opportunities for us to reform our current systems of insurance to gain critically-needed money that we could then invest in caring for and educating people.

Our insurance systems today are marked by two factors -- they are inefficient and ineffective. Health insurance is enormously expensive, 25 percent of the total cost of health insurance is tied up in administrative costs. In fact, everybody in this room now possesses four or five health insurance policies to cover you for different times of the day. If you're driving a car, you have one there; if you're working, you have Workers' Comp; if you're playing, you probably have insurance, unless you're among those 25 percent that are uninsured.

If we develop a single, universally-available 24 hour-a-day health insurance policy, we can eliminate enormous amounts of red tape and expenditure that are bogging down this system and wasting our money. We could then invest that money in providing coverage for people who do not now have it, or educating people, or investing in research, development, infrastructure and the like. And we're talking about major dollars here.

I'll give you three examples. A full 50 percent or more of Workers' Comp is administrative. It does no good for anybody except the people who benefit by processing paper by the medical, legal litigation that goes on. You can eliminate and reduce Workers' Comp by 45 percent in California. Most of the red tape, most of the litigation, would be gone if you simply merge Workers' Comp health with the general health -- auto insurance, similarly. Twenty percent is health care. Eliminate that and fold it in. And, if you can have one universal policy, you can reduce that 25 percent of $900 billion that's spent in America on administering the health care system.

Reforms are possible. All of this is within your hands, Mr. Speaker, the members of the Legislature and the Governor. All of these systems exist because we have passed laws to create them.

SPEAKER BROWN: Thank you, Mr. Commissioner. I neglected to mention that Commissioner Garamendi is part of President Clinton's team attempting to reform the health care system in America. He was kind enough to come back from his duties there to participate with us. Mr. Commissioner, we welcome you and I'm very pleased that you are here.

Let me go now to Dr. Mertes, who is the Chancellor for the Community College system. Dr. Mertes.

DR. DAVID MERTES: The issue of the Master Plan has come up a couple of times in these proceedings. The concept of the Master Plan developed in the 60s was that California would invest in its own future by making higher education available to every citizen in the state. And that visionary concept, found probably no place else in the world as it has been found here in this state, has been an underpinning in the development of California. And I believe at the present time that the goals of the Master Plan are as viable, and probably more viable, than they have ever been in the past. As we look at a more complex economy, the need to have a well educated citizenry and work force is more critical than ever before. I suggest that we retain the Master Plan and its goal and find more creative ways of delivering instruction and more creative ways of funding. And I would offer two from the perspective of the community colleges.

One, the most rampantly growing area for us is the delivery of instruction on site in corporations up and down this state. The corporations enter into an agreement with us. We customize the instruction for the corporation and they, in turn, pay the full cost of instruction and remove that cost from the taxpayer. This partnership that is developing between the private sector and education is a direction I think that can be expanded tremendously.

Secondly, for small business we have established a series of 43 centers in our colleges in the state, serving small business development, technology transfer, and export training for small business and their employees. For the small businesses in this state, which are suffering tremendously, there is the need to find up-front fiscal support to get those centers started and then let them develop over time where they're cost effective and can maintain themselves.

I suggest that education, and business, and government need to find new ways and new partnerships to address the issues that are in front of us. The old ways of doing business are simply not going to be sustained. At the same time, having the opportunity for everyone in this state to enter higher education should be a number one goal of all of us.

Thank you.

SPEAKER BROWN: Thank you, Dr. Mertes. Let me go to Assembly Member Delaine Eastin for questions. Ms. Eastin.

ASSEMBLY MEMBER DELAINE EASTIN: Thank you, Mr. Speaker.

First, I really appreciated the panel. I guess one of the things that's really striking about the last couple of days is we are still in need of making a nexus between two important features of the California economy. We've talked a lot about military downsizing and defense cuts, but, for some reason, we fail to focus on what that really means for the California work force. Most of the people in this room have been in an airplane in the last couple of weeks. Many of us flew here, and many of us will fly home from here. That airplane was probably fixed by a machinist and a mechanic who were trained in the military. For a long time now, we have had our vocational training done for us by having a very large military. The Air Force, the Army, the Navy and the Marine Corps have been training a lot of our young people. They work at Apple; they work at HP; they work at IBM; they work for United Airlines; they work for the people of this state. When we do a military downsizing, we not only cut the jobs for people who are here today, we cut the training for a generation of blue collar workers.

Now, Mr. Hayward's just dead right. We know what we need to do in terms of vocational training. We need to do two plus two. We need to do higher ed and community colleges. We need to do training in the higher education institutions that are four year institutions as well.

But the bottom line is we don't need to pilot another doggone thing in this state. We need the political will and the economic will to translate what we know works in terms of partnership academies and other things. Rudy Crew doesn't have the money to do it himself. He laid off his counselors, who were supposed to be counseling kids to go into colleges. One of the reasons our kids aren't well prepared is we laid off just about all the counselors in the state this year. We are 50th of the 50 states in the number of counselors. He doesn't have the money to do the kind of vocational training that he ought to be doing, and he knows it full well. It's up to the policy makers of this state to put their money where their mouth is and to replicate what we already know works. And, if we don't do it with a sense of urgency, this game will be over.

I am asking some of our presenter panelists and the presenters, what would you specifically do and what time frame do you see for us to really get moving on replicating the programs that we already know work, and how we can proceed expeditiously on that in California?

MR. HAYWARD: One of the things that would be immensely helpful would be a statewide strategy to inform the American public that it's okay to value work -- that in many, many places students see the only way to success as through a four-year academic course. But to give them the alternative, that quality work, that craftsmanship, that being a worker is a good and positive thing, I think would do a great deal to improve the attitude of people about these kinds of programs. So, even in places where there are excellent programs that prepare people for high-tech jobs, a number of people are reluctant to send children into those programs. So, that's one thing you can do.

The second thing is that there are a number of federal initiatives that are either in place or will be coming down, and California ought to be prepared to take advantage of those. One is the Perkins Act, which is the federal Vocational Education Act, which emphasizes integrating academic and Voc ed, and the tech prep act, which will be increased. It's gone from $60 million to $90 million to $120 million nationally. California should be getting a fair share of that. The Clinton Administration will have a number of work-related, work-transition programs in their package. California should be on board for that.

Finally, this is the accountability portion that I mentioned earlier. There are just a whole lot of programs that are very marginal and that don't work and ought to be discontinued. And those monies could be used for programs that do work, that have promise, and will prepare a better work force.

Thank you.

SPEAKER BROWN: Ms. Wendy Lazarus, California NOW.

MS. WENDY LAZARUS: Yes, thank you, Mr. Speaker.

I just wanted to make a few observations about where California's children and families fit into this economic equation. Younger kids, the kids who are pre-collegiate, are 26 percent of our population. The reality is they are our entire work force for the future. And though we've talked about kids around the fringes, I don't think they've been a core part of the economic equation which, in reality, they are in California for two reasons.

The first reason is that kids are part of the business climate today. With the tremendous change in our work force, nearly 60 percent of working women have young kids. I think the subject of child care came up only once yesterday. There's no more important work enabler than child care. In addition, about 80 percent of women in the work force are going to have babies at some time during their work lives. We haven't heard very much about prenatal care and children's health care, yet businesses pay for that. It's estimated that about 3 percent of aggregate after-tax profits in U.S. corporations goes to pay for premature babies or sick babies. Similarly, when employees and employers are looking at communities where they would want to live and stay, key factors are the quality of the public schools, the affordability of housing, the safety of the streets. These are family issues which I think we haven't focused on enough.

In addition, the entire pool of workers that we will have ten years from now are the very young children who we really haven't talked about. And there's some disturbing trends affecting those kids. As you probably know, one out of five now lives in poverty. As dissatisfied as we all may be with the quality of our labor force taking those application tests today, I can assure you we're going to be much more dissatisfied ten years from now if it's just business as usual.

So, my hope out of this Summit is that we can agree on several planks that are actionable. I would like to propose that one of them be a children and families plank that is central to the economic equation -- not just as something we'll get to if we have the resources. During the Presidential campaign, Bill Clinton talked about the "Chelsea test" that was going to govern his thinking.

I think we need to have a children's test in this economic plan that we're putting together. And I think four key elements should be on the children's test. Number one, do we invest adequately in our very young kids, our preschool age kids? Number two, are we taking the steps that we know will make a difference to lift that 20 percent plus of our children out of a life of poverty so they can have a fair start for job preparation and productivity later on? Number three, have we included the steps that make our communities safe from violence for our children, the future work force? And number four, are we building in the protections today in the budget decisions that we have to make this year, so that we can look back five years from now and say we were smart; we thought ahead; and we protected that human capital that is going to be the work force 10, 15 years from now? I hope we can agree out of this Summit to make that pact with children and include it in our agenda. Thank you.

SPEAKER BROWN: Mr. John Mack.

MR. JOHN MACK: Thank you, Mr. Speaker. I would like to direct a question to Mr. Hayward. I think that he outlined a promising and encouraging vision when he talked about the new vocational education and what it might possibly portend for the future. However, I am curious, since organizations such as mine attempt to serve the failures of the system -- particularly minority young people, African Americans, Latinos and, increasingly, the poor -- what guidelines and/or safeguards do you see building in to assure access, true access, by all students?

Secondly, would you elaborate on the connection between the various educational institutions and community-based organizations in the private sector?

MR. HAYWARD: Let me take the first question first. As I mentioned earlier, there is a major concern about mismatch between the quality vocational programs and where the students of need are. We at the National Center have a program of establishing networks of urban practitioners and urban schools to provide technical assistance to them, through our center and through our colleagues and universities throughout the country, to give them the needed help to establish those quality programs in those areas. Also, Congress is focusing its resources on areas of greatest need. So I think you're going to see a targeting from the Congress with money and hopefully increased technical assistance from our group and from other folks to help the urban areas build those programs. There are some exemplary programs, and Rudy Crew and Xavier Del Borneo can point those out. But they're not big enough to form a critical mass to really reform the workplace.

As to your second question, in those programs that really work, there is a partnership that involves not only business and schools and government but also community organizations, with a strong commitment for those kind of linkages. Only those fairly big visionary programs are the ones that really work. Programs that are targeted and too specific really do not have the kind of power that we need to change the quality of urban school.

SPEAKER BROWN: Mr. David Barram, Vice President of Apple Computers.

MR. DAVID BARRAM: Thank you, Mr. Speaker. There have been a lot of really interesting ideas talked about today. I'd like to make a couple observations of things that I've thought in the last couple of days.

I think there are two things that I've heard a lot. One is investing in people and the other is a need for leadership to get it done. It seems to me that we've agreed that we need to invest in people. We're in a new economy; it's a global economy; it takes high skills and high performance workplaces. This is a case where resources come from the mind versus out of the ground. But high skills don't just happen. We listened yesterday to economists talk about different types of economic thinking. One of the things that I'm concerned about is that I don't believe we can have an investment in people economic strategy if we also have a laissez faire economic strategy. We could talk about that a long time; I won't do that. But I think it's really important that we understand that skills, high skills, don't just happen. It's not simple; we'd have done it already if it were. We have to have a systematic renewal of many aspects of all the things that we deal with and a lot of energy on many fronts.

The Germans and the Japanese experience has taught us that, if you have a public-private education, government-business, labor-management relationship, you can make this idea work. But only if you do it that way. It takes a shared national and state vision that includes things like prenatal care; immunizations for all kids; some way to increase job stability, while maximizing flexibility by workers; a great health care system; child care; outcome-based assessments in schools, coupled with world class standards; a dramatic increase in sensible regulating by governments; a long-term horizon for business results -- we get killed by having to deal quarter to quarter; and then a strong focus on high performance workplaces. That's a lot of stuff, and it doesn't lend itself to a simple sound bite answer. As Perot would say, "I don't think you can sound bite this one."

What will it take? I think that's the second theme, and I heard a lot in the last couple of days about the importance of bipartisan leadership. There was a lot of pent up emotion yesterday over the suggestion that the people in Sacramento, who are our elected leaders, need to come together. Most people out there don't really care who wins, Republicans or Democrats; they simply want to get the problem solved. I think that the people of California will support, and I think that means with dollars, a major change in how we raise the skill level of our citizens so we can compete in the world -- if you will lead, if we'll all lead. So what kind of leadership am I talking about here? I think leaders are people who take an idea and carry it. They learn the details, they grasp the essence, create, describe a perspective and define a dream. Then they teach, convince, inspire, and they get it on the public agenda, and they stay with it, even at the risk of losing in a political career. We need to see leadership from you so that we can provide leadership as well.

If you need an example, I suggest two. In the last week, Bill Clinton has demonstrated leadership. He's carried this idea. The American public believes that the idea he's talking about is shared sacrifice. He continues to push it, carry it, and I believe he will keep pushing it. Another example was yesterday when John Vasconcellos talked. I think you'd remember John, he was teaching; he was imploring; he was dreaming, asking us to follow him. That's essential to leadership.

This is a pretty wonderful time in America; it's a fantastic time and a great time in California. It's a time for all of us and all of you who are elected and who we have sent to our Capital to be leaders, to step up and come together, because that's what we want out of this society. Without that leadership, we will not be able to accomplish the core idea, which is to build a higher skill level for all of our citizens so we can compete in the economy.

Thank you.

SPEAKER BROWN: Mr. Xavier Del Buono.

MR. DEL BUONO: I'd like to go back to some of the comments that Jerry Hayward made and to maybe respond a little bit to Assemblywoman Delaine Eastin.

I'm a practitioner. I've spent the last part of my life trying to implement the programs that you've heard about here today, and there's no doubt in my mind that we know what to do. It's how to do it that's eluding us. The barriers that we face trying to implement these programs are many and varied. We have a system that resists change. We have an allocation process that distributes money in a very fragmented way. As an example, we have probably 23 or 25 major programs to fund occupational preparation and job skill training; all of them disconnected, all of them doing only one part of the task, with no means of integrating any of it. So, in response to Assemblywoman Delaine Eastin, yes, we need more money, but we need to invest those resources that we currently have and any new money that we might garner in a very strategic way. We have to focus that money on the kind of agreement for outcomes that we are beginning to reach here today. That's not been our history. Our history has been to fund individual projects, demonstration grants and models, many of them very effectively, but they never get translated into any kind of action or institutionalized process.

So, if I would have anything to contribute to this, it is that we need to learn how to do what we already know. We know what to do; it's how to do it that's important.

Thank you.

SPEAKER: Mr. Del Weber of the California Teachers Association.

MR. WEBER: When we talk about investing our financial resources in people, which is what most of this conference has been all about, we're faced with two problems, which are generic to California which we don't face in other states. The first one is that school funding is not locally generated in this state, unlike all other states except Hawaii, so that in its aggregate the amount of dollars looks huge, because you have a huge central figure for programs which are delivered on the local level. Secondly, despite the awesome amount of that figure, we fund our schools at about 41st out of the 50 states in per pupil levels, which means that there are not quite ten states, mostly in the deep South, who do more poorly than we do.

Throughout the conference, we've been talking about the need for vocational education and technology, and I would concur with all of that. But the comment that I want to make is simply this. Aside from a comment by Ms. Lazarus about the younger kids, I can tell you that we are not focusing in terms of long-term solutions for these problems on the place that we should be focusing, which is in the primary and preschool arenas. The younger kids are only heard from sporadically, because there's no immediate feedback. I teach high school mathematics and computer science, and I teach computer science on the community college level, and there's immediate feedback when you teach a kid those subjects at those age levels. There's no immediate, apparent feedback when we deal with the very young kids, but that's where long-term investment actually has to occur, if you're going to solve these problems. Otherwise, what you're really doing is remediating things that can be solved at ages four, five, six and seven. I think what California needs more than anything else right now is to break the cycle of remediation, where we spend very few resources in comparison with other states, but spend a huge segment of our resources on remediating kids at the young and pre-adult level, 16, 17, 18, 19 years of age -- when we can solve those problems much more effectively by looking at how we address the younger kids. That's a strange thing for a high school and community college instructor to be saying, but I think that in the long range, that's where our resources should go.

SPEAKER BROWN: Commissioner Garamendi.

COMMISSIONER GARAMENDI: If we enacted a save-at-the-pump, where we purchased our automobile insurance at the gas pump, and used the $4 billion of savings to hire teachers at $50,000 each, we could hire 80,000 new teachers. Just to give you some idea of the kind of savings we could have.

SPEAKER BROWN: Let me now go on to health issues. Mr. Steven Thompson.

MR. STEVEN M. THOMPSON: Mr. Speaker, ladies and gentlemen, Mr. Isenberg, the author of the Major Risk MIB program. The health care problems of California today are consuming nearly 14 percent of our gross national product. I might add, however, all those dollars are spent in this country, not abroad. There are a lot of suggestions, the Insurance Commissioner gave some, and I think most people are in agreement with him, that competition will force a reduction in overhead and profit and, thus, we will have true managed care and competition, and slightly better rates than we're getting now. But make no mistake about it, no matter how efficient our administrative and competitive models become, we are not going to reduce the expenditures in health care, unless we're able to face the three large things driving those costs.

The first is, we are aging as a nation, and we're not going to get younger, and when you don't get younger, you're going to be spending more on those frail years. Two, our technology is increasing far beyond our capacity to finance it -- while we all lament that, in a large social context, as individual consumers, we usually want to purchase it. Three, the number of Americans and the number of Californians living on entitlement programs and transfer payments in this nation is increasing dramatically. Every time people mention that subject it tends to be pejorative, because transfer payment programs in one way or another have become part and parcel of the American entitlement and the American dream. I believe, however, this year the California Legislature can take some very specific steps.

Number One: If every person has health insurance, there's no need for enormous expenditure of the Workers' Compensation system -- exceeding over $4 billion -- to accomplish that.

Number Two: We should begin to look at entitlements from a consolidation basis. Two simple ones -- permanent and temporary disability under Workers' Compensation with the State Disability Insurance Program. Two simple entitlements that are almost identical in purpose and identical in dollars. One pays if you are injured at work, one pays if you are injured at home. That's simple consolidation, along with the effort that's being made on consolidating 24-hour care and including and coordinating rehabilitation with the State Department of Rehabilitation could reduce by nearly half, I believe, the current Workers' Compensation costs, and for those businesses that Mr. Ramey mentioned, not providing health insurance, they would be paying a different size premium for enjoying that right than those that do.

I think these are practical steps. We are not going to reverse entitlements overnight; but these are practical steps that the California Legislature can take, and I think that they would signal a very positive sign in the business community in California. Thank you.

SPEAKER BROWN: Mr. Crowley.

MR. DANIEL CROWLEY: Thank you, Mr. Brown. There are three subjects I would like to address very briefly: foremost, education, then the medical machine that we have in our country in terms of inefficiencies and opportunities and, lastly, wellness. Poverty, AIDS, teen-aged pregnancy, premature babies, breakdown of the family, all have certain things in common. In my world, it means intensity of care and expensive care. Those societal issues result in real hard dollars being spent that might have been better spent in the educational system to build up society and create a better civic environment, one in which people don't need to go to the emergency room, because they don't have access to care on Medicaid. And the only care that they can get is at the most expensive point of care, emergency room.

Several of the speakers that we have heard haven't talked about health care. One did. Bill Clinton's talking about it very regularly. We have a system that stands ready. It's a medical marvel, actually, it's the envy of most of the free world. People believe that if you put yourself in the hands of a provider, magic will happen, and you will get better. And if you go into the hospital, you'll come out better than you went in. And when people become ill, they say, "Get me the best. I don't care what it costs." They mean what it costs the insurer, the payor, the government -- whatever it costs somebody else. So we have a society that's used to free care, if you will. Well, it's not free anymore, is it? It's $809 billion in 1992.

Now, why is that? We're not talking about the causes of it. Some of them are societal. Some of them are the way that we have been brought up in the education and the training for a society that uses, overuses, has a great demand for specialists. We have a pretty big malpractice situation in our country, and it's one we talked about that needs some addressing. We have a society that does not have the ability to prospectively analyze the outcomes. What did we get for what we spent? The hard dollars that we're spending, did we get better care? Did we get cured for it? Did we get a second surgery for the same thing or re-admission for the same thing?

We need to ask the question: is acute care the place we want to put our money, or is preventive care where we want to put our money? So, if 37 percent of those who are going to die in 1993 are going to die from heart-related causes and 30 percent of the people who die next year are going to die from cancer, and we know that we can do something with cigarette smoke. We can do something with high-fiber, low-fat. We can do something with exercise. Will we do those things? Will we talk about wellness? Will we work on the societal issues? Or is our strategy going to be to press down on the doctors and hospitals and suggest that the way we're going to do reduction in health care costs is off the backs of the providers who stand ready to provide the service when you need it? That's the fear most Americans have: it won't be there.

We need to be careful about the infrastructure. In 1975, in California, non-federal hospitals numbered 537. In 1990, there were 464 hospitals. Does that mean the number of beds went down, the number of admissions went down, the number of days in the hospital went down? No. It didn't happen. The number of beds went from 81,700 to 82,000. It didn't go down. The number of admissions went from 3 million to 3.14 million. It didn't go down. The capacity of the hospitals, the utilization of them -- 35 percent of hospital beds in the State of California -- are empty. We're going to pay for that capacity. It's standing ready for you.

There is a question about how we reimburse providers. In this country, in this state, we largely reimburse on a fee-for-service basis. That encourages services. There are other reimbursement strategies, and I would like for you to think about these things as we talk about legislative initiatives. How can we control over-utilization? How can we shape health care through different reimbursement strategies that reward providers for being efficient, for doing the right thing, for doing appropriate care?

What can we do as a collective group of leaders about tort reform, really? What can we do about tort reform? Children at risk, to me, seem to be a major subject of what people are talking about at this podium. Children at risk are an investment opportunity to reduce health care, perhaps not this year, but twenty years from now when we impact poverty and AIDS and teen-aged pregnancies and premature babies. Children at risk are the best opportunity we have to change society tomorrow -- by working on the kids today. So I think inefficiencies, education and wellness -- would be a platform for government to focus on. Thank you.

SPEAKER BROWN: Thank you very much, Mr. Crowley. Mr. Fred Rosen.

MR. FRED ROSEN: We're all interested in investing in people; and I don't think anybody in this group is against quality education. But one of the things that is of concern to me on a practical level is the labor pools that exist in the inner cities. For those of us who experienced Los Angeles a number of months ago, we recognize that there are large numbers of young people who need to be brought into the system and have some impact on the system.

Dr. Hayward, you made the comment that people learn by doing, and I wonder if there isn't some form of private industry, community groups and public sector that can put together a work/education program for a lot of these young people who have gone through the schools, or who have gone through the system, and where the system clearly did not impact them. Where we can start with saying, "Work is important. There is honor in work." And then, we will give you a job, whether it be an entry level job or training you for a skill. But the condition for doing that is that you also must improve your education. For those of us who are concerned about the city, and for those of us who have seen the burning and the people with guns, this is a very important issue that we all should focus on.

SPEAKER BROWN: Dr. Crew.

DR. RUDOLPH CREW: Thank you, Mr. Speaker. I have listened intently the last two days, and I want to speak specifically about kids. I don't want to talk about them from the perspective of what I hear being bantered about as an investment in people. I assume that means children as well.

I want to try to translate what investment in people means to a superintendent who is watching the Legislature, watching the state make its pronouncements in the form of policy and budget appropriations. And specifically, the translation of investments in people means as follows:

In a K-12 system of 50,000 urban children, some 22 percent -- 23 percent -- speak a language other than English. About 40 percent come from AFDC families and are served by many other services in the social service support system, all of whom have aspirations of being something someday. And I listen to them, and I shake their hands across graduation stages, and I watch them. But I don't know if they know what we're talking about here today, and I want to try to incorporate what I see in them in my comments in terms of translating for you what I hope you mean by "investing in people."

Here's what I'm hoping it will mean: I'm hoping it will mean we will challenge existing lore, existing methodology, existing policy -- not only for funding. That's the easy part to talk about. I want to talk about the policy of how we teach and who we teach. I want to talk about policies of inclusion. I want to talk about the way in which we understand families to be desperately in need of a school system that opens its arms and accepts who they are, for what they are, and takes them from there to points beyond.

I listened to the economists yesterday talk about a global economy; I've heard it a hundred times and read it at least a hundred more. And somehow or other, there's a needed linkage between the notion of a global economy and the translation of what that looks like in the curriculum of a school. What I'm concerned about, specifically -- let's just use an example -- is foreign language. We have a tremendous amount of research on language acquisition that would suggest that it's the elementary age at which we best learn the acquisition of a second language. And yet, there's something about us that says, "We don't really teach this until secondary school. You've got to be in ninth grade before you can take Spanish, or French, or something like that." Now, I don't know that that policy can withstand the demands of a global economy.

I'm hoping that investment in people means precisely that we will honor, hold up, build upon relationships between kids and teachers. That is to say, what separates a kid who is at risk from a kid who is not at risk is a relationship. The ability to have someone with whom you can talk to, get feedback from, get information from, clearly understand the world and the rules of the world and the rules of the game within the world, taught to you by a mentor, a parent, someone who occupies that very significant adult role in one's life. And it's unfortunate, but -- and Member Delaine Eastin talked about it very succinctly -- we've cut a lot of our relationship people out of our schools. Every time I see a budget that comes across the desk and someone starts talking about a budget reduction in K-12 education, that translates in my mind as cutting my relationship builders. You are taking adults who have the prerogative, the time, the ability, the skill; our nurses, our counselors, our psychologists, our teachers, our aides -- people whose job it is to build a vision about where you can go from 125th Street to become a superintendent.

Now, what I understand to be true is that, until and unless we get serious about that kind of infrastructure, all this other infrastructure conversation in my mind doesn't really translate. I mean, I understand the economic terms, but I don't see it necessarily manifesting itself in the world of K-12 education.

The last and certainly not least in this investing in people formula, I'm hoping, will mean an investment in training. K-12 education is undergoing the same kind of tumultuous transition that many other organizations are going through in this state and in the country. And it means having to do business with kids in a different way and doing business with different kids than we have ever done business with before. It means talking to homeless children about a variety of issues, the likes of which we never thought we would be in the business of having to talk about. It means having to respond to needs and unmet needs of children, the likes of which we didn't even contemplate were going to be on the social horizon. What it means is we've got to train people, and, in many cases, retrain people.

In other cases, we simply have to be in a very clear way very accountable for the outcome of children. Very accountable for what ultimately happens. Do they know how to read? Do they know how to write? Do they know how to do mathematical computations at a very high level? Dr. Wilson talked about the idea of every child being able to take and pass algebra. Algebra. Now, here we are with the global economy theory again and a translation in K-12 that's got to work. My question is, who's in algebra?

I thank you very much for your time. I am hopeful that this platform will accept the bounty, the beauty of our children, and recognize them as they think through these policies of economic nature. Thank you.

SPEAKER BROWN: Senior Advisor to the California Foundation on the Environment and the Economy (CFEE) and formerly head of the Institute on Government at the University of California, Don Vial.

DR. DON VIAL: Yes. I would like to go back to Delaine Eastin's challenge, Dave Barram's response, what Jerry Hayward said, and do a reality check. If we want to get out of endless demonstration projects and start developing new avenues for career development, for transition to work, and for the continuing education of our work force, we have to face what we don't have in California and the nation. We do not have a corporate culture to invest in the training of front-line workers on any broad base. America's choice is high skills or low wages, and this is basically what David Barram was referring to. Fewer than 8 percent of our front-line workers, once they are employed, ever get any formal training. We simply do not have the culture for developing the systematic approach to investing in front-line workers to integrate with what the schools can do and integrating vocational and academic education and tying it to work-based education.

All the models that we want to bring to California, whether they are from Japan or whether they are from Europe, depend upon developing this corporate culture for an ongoing investment in the work force. And that is the key, obviously, to developing the labor/management relationship, the social contract that is essential to deal with the problems that we have both for transition and to the ongoing work force. I think that what we ought to do is focus on how we can develop that corporate culture to invest in front-line workers.

I have three recommendations: One, on the renewal of the employment training panel. Look at that employment training panel purpose very carefully and make sure that, as we pump that money into work-based training, we are also developing a corporate culture for ongoing investments in training. We're not doing that well. The law is not clear; it's not specific. We are using unemployment funds to a certain extent to integrate with training.

Second, we must do a better job in recognizing that the incentives to reduce unemployment that are built into the financing of our unemployment compensation system, our experience rating system, do not recognize a threshold of investment in training. You should be looking at the merit rating and an experience rating system for financing unemployment insurance and make sure that built into that is an incentive for employers to invest on an ongoing basis in training their front-line workers.

Third, is the integration of health care with this kind of an investment strategy. We have had the tendency in this country to load more and more of the benefits of society onto labor costs, and health care is the prime example. Now, if we want to increase the capacity of employers to invest in front-line workers and training, we have to start moving the financing of health care off labor costs and onto the income stream of society. And, as we do that, we free up the capacity of industry to make that investment and develop that culture. That's a hard nut, because we have a lot of special interest groups that are involved in the present system of health care. But, until we start moving health care financing from the work base, where all the discrimination exists, as the Speaker has pointed out time and again, to the income stream of society -- until we do that, we are not freeing up the capacity of industry to invest in front-line workers for productivity, product quality, and competitiveness.

These three things are wrapped up together, and I would again just say the focus has to be on developing that culture for training and investing in front-line workers.

SPEAKER BROWN: Thank you very much, Dr. Vial.

The second panel consists of a wide-ranging and diverse group of disciplines -- entrepreneurs, academicians, practitioners. They will cover the range of things which are necessary to help develop an economic development strategy for California. We will cover new technologies. We will cover the issue of how we convert our defense-oriented industries to peacetime industries. We will also address environmental questions.

The first of the presenters is Mr. Robert Friedman. He is the Chairman of The Corporation for Enterprise Development in California, and I have asked him to offer his recommendations for new economic development strategies for California. Mr. Friedman.

MR. ROBERT FRIEDMAN: Thank you very much, Mr. Speaker, for holding this summit and for allowing me to participate in it. Gloria Steinem says there are only two things she worries about when she gives a speech -- the things she says and the things she doesn't. I've worried a lot about what to leave out. Based on the 15 years of our work with states around the country on economic development strategies, I want to offer four observations and two recommendations about economic development policy in California.

My first observation: California and the businesses within it will compete as high value-added, high-skilled producers. California will never be a cheap place to do business. It can be the best place to do business. High wages, high profits, high skills, high value-added go together.

Observation Two: People tend to over-estimate the importance of tax policy in economic development. Tax policy is not economic development policy; it is only a part of it. The important questions about taxes: are they capable of underwriting an adequate and predictable level of investment in the people, infrastructure, and businesses of this state? Are they used well? Are they fair?

Observation Three: We will never be globally competitive, unless we take advantage of the diversity of this state and include all the people of the state in the mainstream economy.

Observation Four: Just as the private sector has had to change the way it governs itself in order to compete in the global economy, so must government. Ted Gaebler probably went over the principles of re-inventing government yesterday. It is important. We will never do what we need to do to galvanize the economy of this state through fragmented, top-down, small programs helping a few individuals escape poverty or a few businesses modernize their plants. We must develop policies and systems on the scale of this nation-sized state, policies that empower the beneficiaries -- people in businesses -- to seek their own reward, holding folks accountable for results, and freeing them up to do things as they see best.

My first recommendation is that we should endeavor to raise the level of general practice to the global norm by stimulating private firms themselves to organize the kinds of private sector infrastructure and small firm manufacturing networks that we see in our major competitors.

When you look at Denmark or Germany or northern Italy or Japan, you notice two things that are different from the California context. One, the general level of business practice is higher. Most firms are tracking global market trends using the new technology, managing a new way, investing in the skills of their work force. Not the problem with the top 5 percent of our businesses. They're as good as, or better than, any in the world. The next 90 percent is what we have to be concerned about. To me, the most chilling, statistical finding from the Commission on the Skills of the American Work Force was that we have a skill shortage in this country -- not because we couldn't profit from people with higher-level skills -- but because most businesses are not pursuing the kind of value-adding, upscaling strategies that can make high skills pay off. We need to do the kind of things Denmark, Pennsylvania, Oregon have done: to encourage small firms to get together to do together what they can't possibly do alone. The truth of global competition now is that the focus of business competition has shifted from the level of the individual firm to the system in which firms operate. We need to do something at scale. You can finance that if necessary, I think, by cutting from existing individualized business-assistance programs.

The second recommendation is, we need to open the doors of the California economy to those on the margins by building assets and enterprise opportunities. A third of American households today -- one-third of California households -- have no or negative investable assets at a time when the cost of entry into the mainstream economy has grown -- whether you measure that in terms of the cost of an adequate education, the cost of capitalizing a business, or the cost of a home. Fully half of American households and California households have negligible investable assets. It is an economic grandfather clause, and it is the result of a bifurcated policy at the federal and state level. At the federal level, we spend $100 billion per year subsidizing asset acquisition by the non-poor, and we penalize asset acquisition by the poor. The welfare mother who saves to go to college, the welfare mother who buys a piece of equipment so she can start a business, loses eligibility for Aid to Families with Dependent Children and for Medicaid. This makes no sense.

President Clinton has endorsed an Individual Development Act. Demonstration states like Oregon, Colorado, Iowa, and North Carolina are developing systems. So should we. We need to bring new people to the market place. There is an exemplary system in this state developing micro-enterprise programs -- programs like the Women's Initiative for Self-Employment in San Francisco or the Coalition for Women's Economic Development in Los Angeles -- that are meeting people in poor communities, where they are, and giving them steps forward to join the economic mainstream. Today, economic policy and social policy are inextricably linked. We will not solve, I think, any of our social problems without solving the economic problems that underlie them. We will also not develop the new products, the new services we need, if we do not bring new people into the economy. Thank you very much.

SPEAKER BROWN: Another one of the constitutional officers participating in this summit is the Honorable Gray Davis. He is the Controller for State of California, a former member of our House, and a former part of the Executive Branch of government.

STATE CONTROLLER GRAY DAVIS: Thank you, Mr. Speaker, and let me be one of the people to commend you for assembling such a talented group of individuals all in their own way trying to get California on the right path.

I first want to associate myself with Mr. Friedman's remarks. There is no question that the long-term job of creating wealth and creating jobs in this state depends on investing in people and their education, in their life-long training, because the real wealth is between your ears. When I grew up, my father said, "Son, you're lucky to live in a rich country." I said, "What do you mean, a rich country?" He said, "Well, we have wealth in the ground. We have coal and we have oil and we have gold, and we are wealthy. A lot of other countries don't have those natural resources."

If wealth in the ground were still the true definition of wealth today, what would the wealthiest country on the planet be? Russia. Not doing too well today. Japan would be one of the poorest. They have very few natural resources, but they are doing quite well in a comparative sense. So, the real wealth is between our ears, and if we want long-term prosperity, long-term job growth, clearly the answer lies in better use of our educational facilities, a far better vocational system, and much greater realization that real talent lies in the skill levels of our workers, because capital can move, business can move -- workers don't move.

Short-term, however, there are things we can do, and I think we should begin by looking at what other folks do. I want to share a story with you. About a year ago, I went to Orange County and talked to Roger Johnson, the head of Western Digital, and I said, "Why is approximately half of your work force in Singapore?" He said, "I was thinking about building a plant in Singapore, and I went there and said to the government, 'If I build a plant here, and I employ 1,000 people, and I keep them employed for at least 10 years, do you have any objection?' They said, 'Will you put that in writing?'" He put it in writing, he spelled out exactly what the wage level would be. He signed. Singapore signed. They had a contract. The next day, Singapore gave him a check for 20 percent of his payroll cost for 10 years. And they said, "Mr. Johnson, we are thrilled that you have chosen Singapore as a place to build your new plant, employ 1,000 of our citizens; and we want you to train these workers to make sure their product is the best in the world, so you can export it all over the world. So, the next time Western Digital is thinking of expanding, they come to Singapore." Roger said to me, "Gray, I don't expect California to give me a check. But I'm a public company. I have obligations to my shareholders. Make it attractive for me to do business here."

Now, Singapore is not our only competitor. New York City, where I grew up -- I know many of us came from other places, that's really the strength of California, we're all immigrants in one sense. In New York City, I mean, you learn to keep a firm grip on your notes. It used to be a hostile place, believe me. New York City now says that, if you want to do business in any of their burrows, and you manufacture, there will be no taxes for 12 years. And then, by year 25, you will pay more taxes than you would under an ordinary scale. So your taxes escalate, but they give you a 12-year breathing period to get started to make it attractive to come to New York City. They do that because this pencils out. They don't do that just to spend money to waste it, but because they've figured out that under their tax system it pencils out.

I want to share Chart One with you, because I think that will explain why these kinds of incentives can work, if they're done properly. Could I have Chart One? If you look at the orange part of the pie, that demonstrates that the personal income tax represents nearly 44 percent of all the revenues that California collects; and the bank and corporation tax represents 12.1 percent. Now, you don't have to be a rocket scientist to figure out that you can lower the bank and corporate tax for promises of greater employment.

What I'm proposing today as a short-term program, a short-term stimulus, is a three-year effort where we enter into contracts with business. If they want a tax credit, they go to the Department of Commerce or some economic authority within the Executive Branch and prove to the economic authority that over a 5- or 10-year period, they will generate more revenue on a new project, a new business, than the costs of the incentives reduce the revenues to the state. So, if, in the vernacular of developers, it pencils out, if more revenue comes in than it costs us in revenue credits, we're ahead of the game. If it doesn't, we don't do it. But that is a new arrangement where we don't issue blank checks; we don't provide tax incentives and hope something will happen. We have a contract with the rights, responsibilities, and remedies for both parties spelled out.

Now, how would that work? Well, recently in Michigan, you saw the courts implied a contract between the State of Michigan and General Motors. Varieties of incentives had been provided to keep plants in Michigan. General Motors said they were going to move. The court said, "Wait a minute. You have an implied contract. You can't just take these incentives and pick up and run." So the contract protects the public sector, makes sure we get some bang for our buck, and makes sure our investment is returned in the currency of the realm, which is new jobs, new productivity, and an expanding work force.

Let me see Chart Two, because I think it makes another important point that all policymakers have to deal with. This shows the relationship of jobs to population. In 1986, 42 percent of the work force had jobs. In 1988, that had grown to 44 percent. In 1992, that had dropped to 39.3 percent.

It's predicted to end up at 38.5 percent at the end of this year, and then drop to 38 percent. This is another way of saying what some of the speakers have mentioned before; namely, that the percentage of job holders is decreasing relative to our population, and that's why I think in the short term we ought to take the extraordinary measure of incentivizing employment, something we never do in good times, and I don't propose we do it long-term.

California's relative competitiveness is not going to depend on tax incentives. That is a short-term measure. It is going to depend on the quality of our schools, the quality of our training, and our willingness to invest in our work force, and the wealth between their ears. And finally, it's going to hinge on attitudes.

It is a good thing to create a new job. If a business or a person is willing to risk their own capital to put someone you know to work, that is a good thing. We should not be suspicious of that. We should be grateful. Let us not maintain the attitude we have historically in this state, one of suspicion and hostility towards business; let us realize that they deserve, like everyone else, the benefit of the doubt. If they're willing to increase the work force and provide new opportunities, we should be willing to meet them halfway. If they act badly, we should reciprocate, but we ought to have a partnership implied here, and I think to an extent that we can formalize it through a contract process, it is well worthwhile.

Also, let me say this. Let us end the era of blank checks. Let us stop this nonsense of providing tax incentives without ensuring that something else comes in return. Because it has not worked. I know this is a non-partisan forum and I'm going to try and remain non-partisan, but in all fairness, the approach in the 80s did not lift all boats. It did not raise income, and, as other speakers have mentioned, 80 percent of Californians were less wealthy in 1989 than they were in 1980. That was a study done by the Franchise Tax Board. Eighty percent actually grew poorer. So, clearly tax incentives at the top, without any promise to do something in return, has not lifted income, has not lifted productivity, and has not lifted lifestyles for most Californians.

So, let me conclude with this one notion. The great thing about this state is that we have plenty of wealth between our ears. If we would just spur legitimate risk taking and innovation in the public sector, there is no stopping us. All of us came from some place else; we picked up stakes; we left family and friends behind, because we were risk takers, and willing to try something new. Let us have the courage, as President Clinton said, to try a different approach to government, one of shared responsibilities, shared obligations, and I think if we do that the future will be bright. Thank you for listening. (applause)

SPEAKER BROWN: Let me now introduce Harley Duncan, who is the Executive Director of the Federation of Tax Administrators. I've asked him to discuss tax policy and his views on the effectiveness of state investment tax credits.

MR. HARLEY DUNCAN: Thank you very much, Mr. Speaker, Members of the Legislature. It is indeed a pleasure for me to be here. What I'd like to do this morning is to accomplish three things relatively quickly. The first is to provide you with a quick comparison of the California tax burden and tax structure vis-a-vis that in other states. The second is to give you my evaluation of what the literature says and some thinking about what economic development incentives mean, their effectiveness, and the role of taxes in economic development generally. And then, third, I'd like to leave you with my words of wisdom, I guess, and some guidelines that I suggest in terms of addressing the tax policy component of an economic development strategy.

If I could have the first slide. What I've tried to show in this slide is the California tax burden relative to the tax burden of the nation as a whole for state and local general revenue -- that's all the money that state and local governments raise on their own levies. The red line is California. The green line is the U.S.

What you see is that in 1990 the burden in California was 16.8 percent of personal income compared to 16.1 percent nationally. California ranks about 20th in 1990. If you look at it over the last 20 years, as the chart does, there are really three distinct periods. The first, from 1970 to 1977, where California was significantly higher than the national average, but increasing at about the same rate through 1977. There was then a very sharp decline in the tax burden after 1978. It declined at a faster rate and farther than other state and local governments did, reaching a point in 1983 where it was about 14.1 percent of personal income, compared to about 14.9 percent nationally. At that point California ranked about 35th. Since that point, the California burden has been increasing at a faster rate than the national burden has been increasing. The national is also increasing, but California's has been increasing at a faster rate, which has caused California to rise to 20th. If we had data for 1991 and 1992, I suspect the same pattern would be true.

The second thing I wanted to look at is the mix of tax sources in California, compared to the nation and that's in Slide 2. There are really two points to be made. The first is that California relies relatively less on property taxes than other states. In other state and local governments, property taxes account for about 22 percent of the tax burden. On California, that's about 18 percent. The exact reverse is true of income taxes. In the nation as a whole, they account for about 18 percent, in California corporate income and personal income taxes account for about 22 percent, and the difference is about equally shared between corporate taxes and personal taxes. We shouldn't jump to the immediate conclusion that this means California tax rates are higher, because California wage rates are generally higher than on average, as well as the level of business activity in California, so that any given set of rates in California will produce proportionately more revenue than it would in the average state.

If one looks at the economic literature surrounding the role of taxes in economic development and, specifically, tax incentives and whether they stimulate development, you can come up with a rich literature that produces a variety of conclusions. Often they are in conflict with one another, and they don't reach the same conclusion. In fact, it looks in some cases like it depends on who asks the question as to what the answer was. But I think, generally, if you were to review that literature, you would come to a conclusion that tax incentives and state and local taxes generally are not primary determinants of economic activity and business location decisions.

There are really four or five things that drive that conclusion. The first is that there are a variety of much more significant factors that affect business location and economic development. We would look at factors such as transportation services, transportation costs, availability of markets, proximity of markets and cost of labor, cost of utilities, a whole host of quality of life services that we talked about for the better part of a day and a half of educational quality, environmental quality, and the like. These items are significantly more costly and make up a higher proportion of the business cost structure than state and local taxes.

The second thing is that state and local taxes are not a significant component of the overall business cost structure. If you look at a variety of the studies, you'll find that, on average, state and local taxes generally don't go above 2 percent of the total business cost of the firm. If you look at other things, such as compensation of employees, that was a $2.7 trillion figure in 1990. That was 100 times greater than all corporation income taxes collected in all of the forty-five states that collected them. If you took all business taxes collected by all state and local governments -- property, sales, income -- you would probably come up with about a $150 - $170 billion figure. One half of the employer share of FICA taxes exceeds that amount. So that state and local taxes are not a major piece of the business cost structure.

Third, there are a variety of things that tend to wash out the effectiveness of incentives and the impact of taxes. Federal deductibility is one; the cost of the state and local tax dollar is about 30 cents on the dollar to the firm. Second, if it's an incentive and it looks like it might work, you can bet your bottom dollar it's going to be replicated someplace and it immediately begins to wash out.

Third, the incentives and the reduced costs that you might provide through a tax incentive are likely to get capitalized into such things as land or perhaps into labor rates.

The final issue that would mitigate the importance of incentives is that there are very few firms that can be specifically positioned to take advantage of them so that they would actually stimulate activity. We had a hypothetical case of two firms in the Mojave Desert producing the same exact thing. In that situation, yes, that may be the case. We don't have an awful lot of firms 40 miles apart in the Mojave Desert. The point being, that to get comparability, where you can actually get an incentive to be stimulative, I think is fairly difficult.

A son of California named Dick Nesser summarized economic development incentives this way: "Economic development incentives are, for the most part, neither very good nor very bad from the standpoint of efficient resource allocation; given the lost cost effectiveness of most such instruments, there's little national impact, only a waste of local resources in most cases."

If we're to look for guidelines for tax policy, I would suggest the following items. First is the one that I think has been recognized throughout this conference and I'm very pleased with it. If the purpose of a tax system is not to influence economic behavior, but to finance a mix and a quality of public service that is demanded by the public and serves the needs of the states, then we have got to remember that the purpose of the tax system is to finance the public services.

Second, a tax system ought to strive for neutrality. We ought not to be concerned about favoring one type of business over another, and we ought to strive as much as possible to take taxes out of the equation and make them neutral. That argues for broad-based, low-rate taxes that treat everyone alike.

Third, stability and predictability in tax policy and the tax system are the two things that are demanded the most by the business community with respect to state tax policy, in my estimation. Their planning horizon for investment, business location, and the like are sufficiently long that what they are primarily interested in: "I want to know what I'm going to face five years out, or seven years out -- not is there a $25 credit for job available for the next two years.'

Fourth, if you're going to have incentives, they've got to be a part of an overall strategy. Sports analogy: you don't know what club to use if you don't know where the hole is located. Incentives need to be a part of an overall strategy. Then, within that strategy, refine the incentive to the degree that you can to reach the objective that you want. Broad-based incentives that generally promote good works tend not to stimulate much. They subsidize that which would otherwise occur and they tend to be fairly expensive. Finally, I would suggest that if you do use incentives, once you put them in place with your tax policy as a whole, subject them to periodic evaluations to see that they are accomplishing what they are intended to.

I want to commend you, Mr. Speaker, for the conference. I really think that California is a long ways down the road in the tax policy debate, because you're not arguing that incentives ought to be the centerpiece of a long-term economic development strategy, but, rather, what's the array of public services that are necessary to provide that strategy and how can we finance that, and that I think is the important threshold question. Thank you. (applause)

SPEAKER BROWN: Mr. Duncan, thank you.

Let me now ask Miss Enita Nordeck to approach the podium. She is the head of Unity Forest Products, and she is a living example of what it ultimately takes for a woman to operate a lumber mill business in the State of California. I think you're probably unprecedented, Ms. Nordeck. Please.

MISS ENITA NORDECK: Thank you very much, and good morning and thank you, Mr. Speaker. Unity Forest Products was conceived as an idea in December of 1987. With three men, who had a great deal of faith in me and my abilities, we started our business January 1st, 1988, in a rented one-room office, with a sum total of four employees. In order to start this company, it was necessary for me to sell my home and everything else I had to generate the capital.

I gambled all my past efforts, my future, and the future of my family on an idea and a sincere belief that in this country, and particularly in this state, with dedicated effort and ability, we could reach our goals. And our goals were to build a business on team effort, team rewards, make a profit, and be an asset to the community.

By September 16, 1988, exactly nine months later, Unity Forest Products was 25 employees strong. We had built a $1 million manufacturing facility, an office, and we were producing our own product.

Now to do this, we had to overcome many obstacles. There were four major ones. The first was financing. No bank and no lending institution lend money to stereotypes; I was a woman in a non-traditional role. We had to face the federal, state, county and city regulations, and then we had to find equipment, a location, land, personnel, customers, establish a marketplace, and find vendors who would give us an open line of credit.

Now, how did we overcome these obstacles? Well, first on the financing, I put together a very complex package that involved the city of Yuba City, and that was through a revolving fund, a federal community redevelopment block grant, and from there we obtained $100,000. From the State of California, through the Department of Commerce, we obtained a loan of $105,000, and Wells Fargo came in with a $465,000 term loan with a $300,000 revolving line of credit. But in order to put this package together, for the bank to OK it, I had to obtain a grant for the training of my employees. This was obtained through another state program called the Employment Training Panel. I applied for and received a $100,000 grant. In addition to this grant, I needed one more ingredient, and that came, again, through the state in the form of the enterprise zone. With the tax credits that the enterprise zone would generate, I was able to convince the bank that this was a workable deal.

Now, however, none of these funds were available until the facility was built and functional. (laughter) So the last ingredient was a developer willing to risk his judgment call on my integrity and ability, and I found that developer.

As far as a woman in a non-traditional role, I handled that the only way I could. I just ignored it. (laughter)

Then we came to the federal, state, county, and city regulations. I spent hundreds of hours meeting requirements at all levels. I was very fortunate to have found a bureaucrat who had been in business for himself for many years and was now the director of the economic development program in Yuba City. When I first approached him with my idea, his statement to me was, and I will never forget this, he said: "I don't know how it can be done, but I know it can be done." I don't know if he's a Democrat or Republican, but it was his attitude and his untiring efforts to unravel the red tape and define the federal, state, county, and city regulations that made it possible for Unity Forest Products to be built. By the way, that gentleman's name is John Whiteman. Then we got to the equipment, the land, the personnel, the customers, the vendors, and this all turned out to be the easiest part of all of an almost impossible task.

Once I got through the bureaucratic maze, we were able to do what we do best, and that's run a business. And where is Unity Forest Products today? After starting in 1988 with the four employees, and the one-room rented office, we have grown to a full manufacturing facility on ten acres. We are 38 employees strong and produce $16 million in gross revenues annually, with a payroll of $1.3 million, and we've never had an unprofitable month.

In order to do this, we had to add employees, and I'd like to say that 80 percent of our employees come from what the state calls terminally unemployed people. And that means people who no longer are eligible to receive unemployment; they're on welfare, and their families are on welfare. Our turnover rate last year was 0 percent. Twenty percent of our employees are first time home buyers. To accomplish this, however, it was necessary for me to start in-house training programs at the plant. At the in-house training program, we work not just with work skills, but life skills, too, such as how to balance a checkbook, how to read, how to write, how to add and subtract.

When I realized that many of the terminally unemployed were in that situation because they were convinced they were losers, I knew we had a responsibility to do something to change it. And the first step was to create an awareness of their own potential. And we went after it, and it worked.

In working with our employees, it became apparent that not only did they need a sense of dignity, but that their families did as well. As a result of this observation, I started a tutoring program at the local elementary school, and this tutoring program is available to any student of the community who wants help -- five days a week, year round. We supply a credentialed bilingual teacher with five teacher's aides for an hour each day.

The program has been extremely successful, and, according to the principal, over the last four years, the school's academic level has increased by 20 percent over all. But remember, the dollars I spend go directly to the teacher. We've created a scholarship for students with learning disabilities. We work with the community college in developing curriculum that relates to real world business needs.

And what are the goals for Unity Forest Products tomorrow? The goals are not hard to define. Controlled growth, profit, commitment to our employees and our community. And are the future goals feasible? Yes. But not, possibly, in California.

To be honest, if I had it to do over again, I would have located in another state. And I find that statement very difficult to make, as there are six generations of my family who have lived, raised their families, and earned a living in this state.

And why not California? State programs on the surface that look good in reality are not worth the volume of paper they're written on, let alone the dollars that are spent on them. State regulations stifle business and place an unbearable financial burden on business. I'd like to take the example of the enterprise zone. The tax incentives are not usable. Bluntly, the program is worthless. I have $166,000 of tax credits which are unusable. The Employment Training Panel Program: I find that another worthless program. The $100,000 grant I received from the state, I gave back. I couldn't afford to use it. My business would have gone broke. The only good thing I can say about those two programs, is they were so deceptive, it fooled my bank. (applause and laughter)

The State Worker's Compensation system is a joke. New state regulations, such as the storm water run-off, are devastating to a small business and serve in most cases no real purpose other than to justify some state job. Our timber harvest plans are out of control. I don't have any graphs but

I do have some visual aids. This is a California Timber Harvest Plan. This is an Idaho Timber Harvest Plan. This is an Oregon Timber Harvest Plan. (applause and laughter)

Why do we have this? Because special interest groups and single purpose agencies have made it politically advantageous to pursue unsound legislation and regulations. Have I tried to correct these inequities? Have I contacted my Assembly people, my Senators, the Franchise Tax Board, the director of the enterprise zone, the Governor, the Department of Commerce, the Secretary of Natural Resources, the Director of the California Department of Forestry? Absolutely. Have I had any success? Absolutely not.

During the five-year period I've been in business, the cost of doing business in California has increased to the point where I doubt business can continue. By putting my net worth at risk in 1988, and that was $220,000 and represented my home, I have generated payrolls of $1.2 million in 1992, $1.3 million in 1991, and on an average generated in payroll taxes, property taxes, business taxes and income taxes, a contribution to the federal, state, county and city governments of over $500,000 annually. Not to mention, I removed from the welfare rolls over 20 families. I wonder if the state would have used these funds as effectively. (applause)

As a small business person, I wear many hats. I'm the CEO, the CFO, the controller, the accountant, the in-house attorney, the in-house tax expert, not the mention the general manager and invoice clerk, when need be. I knew the first year of startup that my business required a seven-day work week basically around the clock. What I didn't expect was that five years later I would still be working seven days a week. Not because manufacturing personnel or any item related to running a business and earning a profit created the need, but, rather, because it is necessary for me to spend more than 50 percent of my time handling state regulations that would destroy my company if not researched and implemented with extreme caution.

Can the erosion of the California's economic stability be changed? Yes. But first we must stop the internal bickering and power struggles. Second, we must commit to a goal. The name Unity Forest is not an accident. I knew in order for my company to have a fighting chance of being successful, it would require a commitment from all my people to work together as a unit towards a goal, always agreeing to disagree and then move forward. Ego, pride, power would destroy it. We could not afford a star player. We had to have all stars, each and every one.

And third, the government must stop spending what it does not have. Both the legislative and executive branches must have the political courage to make decisions on what is right for the state and not necessarily right for political careers. Powerful special interest groups with huge budgets must be set aside in the decision-making process. Our educational system is a disaster. When we have 117 administrators to every 100 teachers, it's no wonder. Why do we have this ratio? Because the state decided it could do a better job of providing education than the local districts.

Actually, Big Brother has decided he knows best on a wide range of topics, including the environment. I attended the Bio-Regional Executive Council meetings many times, foolishly believing they wanted input not only by a business person but by someone who really cares about the health of California's environment and economy. What I found was a group of bureaucrats with a predetermined agenda, going through the motions of obtaining input.

Worker's Comp reform. I have listened for three years to the subject of reform of a system that is deplorable. The first year I was fooled into believing that something was going to be done. The second year I still had hopes that our state government would have the intelligence to move on the problem. And this last year I laughed at the thought of it ever being addressed. And maybe it wasn't laughter, maybe it was tears.

And what is business' role in all this? Are we to blameless? No. Business has a responsibility to address our educational problems, not just throw stones. Business needs to roll its sleeves up and get involved. Business has a responsibility to educate the public with real facts covering a wide range of subjects from the environment to health issues. Business has a responsibility to set aside greed and power and work hand in hand with government to develop sensible regulations and, if need be, to insist that old regulations and legislation be stripped away. Business has a responsibility to educate our government officials about the ground problems on these same subjects. Business people are at the front lines. And most of all, business has a responsibility to provide jobs and incomes to our employees that allows them to live with dignity.

I was hesitant to accept the invitation to attend this summit. My first reaction was: another meeting, more words, more reports, only to serve some political purpose, a waste of time -- time I can ill afford to be away from my job. But then, I thought, I can't give up. This is my state! I'm responsible for what happens to it. And I must keep trying. And I will. But, for businesses like Unity Forest Products, there isn't much time left. If the results of this summit are more reports, more findings, more committees formed, then I can assure you businesses big and small will continue to leave California until the state government's paychecks won't clear. Thank you. (applause)

SPEAKER BROWN: Miss Nordeck, thank you very, very much. You have indeed laid out the case, and I think the Members of the Legislature and the Constitutional Officers who are present will be responsive. They do not want the generations of your family that have invested so much in

California and the extraordinary courage that you've shown in continuing to challenge the system to be for naught. Give us one more chance; I don't think that lesson will be lost on us. At least, I'm hopeful. (applause)

Stephen Cohen is a member of the faculty of the University of California. He is a specialist in international trade. He is the co-founder of the Berkeley Roundtable, Roundtable on the International Economy, and he is here to discuss with us the role that he believes international trade plays in the economy of California and its future.

MR. STEPHEN COHEN: Thank you very much, Mr. Speaker. And I thank you for giving me an impossible act to follow. (laughter)

SPEAKER BROWN: Better you. (even more laughter)

MR. COHEN: Exactly. I'm supposed to try and think of something to say about situating California in the international economy, and it's classically messy and boring material. I recall many years ago when many of us were listening to Henry Kissinger running around saying we live in an interdependent veldt. By which he meant pretty much that Germany was interdependent on France, and France interdependent on England, and Japan interdependent on America, and all of them interdependent on America, and we were interdependent on nobody. And that's what we meant by interdependence at the time. Now we are interdependent, too.

In the late 60s, maybe 4 percent of GNP would be accounted for by imports or exports. The big trade partner was Canada, and the big product was automobiles. They were all made under treaty rules within the Big Three, and, from GM headquarters, you could see the Canadian plants. That was our exposure to international competition, and we handled it rather well. Now 70 percent of everything we make is subject to direct or imminent competition from foreign-based competitors, and, all in all, we're doing miserably.

As you well know, the United States runs a trade deficit of about $100 billion a year. With whom do we run the trade deficit? Not with the poor folks. About half of it is with Japan, which pays wages probably higher than we do now. And it's probably more than half, if you count the Japanese companies operating in Korea or various other parts of the Pacific and the Japanese components of Korean products and the like.

We run a surplus with Europe, which is just very well due to changes in the currency exchange rate. Our deficit with Japan does not respond to the exchange rate. The net result is a big drain on employment. You take a hundred billion dollars and multiply it by the figure the Clinton people used yesterday, you get something like two million jobs. And those are only partially compensated for when we borrow back the money. We entered the 1980s as the world's biggest creditor, and we exited the 1980s as the world's biggest debtor. So we owe more people abroad more money than all the underdeveloped countries combined. Don't worry, we can handle it in what is the biggest debt equity swap in history. The Latin-American stuff is only spring training. We're solving the problem, at least the economist are, by recalculating the statistics. We're going to switch from cost-basis for assets to market value, which will eliminate the debt. (laughter) It actually will.

California is very involved in the international economy. We are responsible for about 16 percent of U.S. exports. All these numbers on California imports and exports are not worth a damn. A good deal of our exports we simply ship to Seattle; they stuff it in a Boeing, and out it goes, and I'm not sure they're ever counting it as exports. So one must be very prudent in using basic economic numbers.

We're big exporters, much bigger than our percentage of the national population. But we're also gigantic importers. We're responsible for 20 percent of American imports. So, we run a trade deficit of some $30 billion a year. Imagine if that $30 billion just descended on the California economy. Clinton said that's half a million jobs, we can all go home tonight. If California were a foreign country, I'd suggest it devalue. It'd be the simplest move. But we're stuck with the dollar the way the French are sort of glued to the Bundesbank and the Deutschmark at the moment. (laughter)

So the California trade numbers are big, and we're a bigger part of the problem than we are of the solution.

Our exports are, by their very nature, terrible ... political. They're not simple free market products, because we don't export neckties and the like too terribly much. We've had eight years of policy in the United States designed to make U.S. exports cheap. Didn't work. Didn't work at all. We dropped the buck in half against the yen. We held real wages down in this country to levels below where they were in the 1970s. We busted the unions, we deregulated, we did the whole darned thing. And we got nowhere in terms of competitiveness. Our real problem is with the high-cost guys, and we're not going to beat the high-cost people by becoming low-cost people.

If you look at the big air export throughout aerospace -- it's not getting better, friends; it's getting worse. The civilian side will pick up eventually, but, all in all, it'll be worse. Agriculture was facing new and strong competition in our export markets and in our domestic markets from places such as Mexico and Chile. Electronics, that has a question of market openings for American firms. They're good, and California firms are splendid. Can they get into a lot of markets which they have a great deal of difficulty penetrating? And I suspect -- I know very little about the problems of the lumber industry -- but, for all I know we're still exporting raw logs, while we fight with one another over spotted owls.

In brief, our export problems are political. All the entrepreneurship in the world is not going to change it. We ought to keep our eyes on the national trade agenda and maybe use our biggest asset. I say our most underutilized asset -- in addition to the wasting minds of our youth -- the other big underutilized aspect is the strength of our congressional delegation. (laughter) We've got to organize it. We're in trouble; we're in desperate trouble. This state economy is wretched, as you well know, and it's not going to get nice and better all by itself. We have structural problems, as we were told yesterday, underneath the cyclical ones. And if the cyclical picks up, it's going to show underneath, it's rotted.

National trade policy. We have to get beyond GATT, and GATT kinds of policies, with their emphasis on eliminating obstacles at the border. And we have to focus, especially among the G7 countries, on access to markets, access to technology. California has always been big at having technology. Other guys invent things, too; we've got to get our eyes on them.

And finally, access to direct foreign investment, that is, U.S. and California outbound investment, because if you can't have a big strong investment in that country, you're never going to have a decent piece of its market, and you're never going to have real access to its technology, and, if you don't, you lose. These are the areas where the world is not global. It's very common to say the world is global; we at BRIE at least don't think it's round at all. It's very asymmetrical. Foreign investment, in a country like France, say, 20 percent of all industrial assets are owned by foreigners. Germany about the same; in this country, it's 12 percent; in Japan, it's robustly under one percent. If you can't be in the market, you're not going to win. It's not very complicated. So, I think that's a new trade agenda.

Sad, similarly, we've always concentrated on procedural approaches. We send committees of Chicago economists to explain to the Japanese that they must worship at the altar of free market economics and they must change their society to how Senator Taft imagined Ohio once was in the early 1950s. (laughter) Got us nowhere in a hurry. We've got to start focusing on outcomes. We can't change their society. We didn't when we had the power, and now we don't have the power. If it sounds like I'm talking a little anti-free trade, I'd like some more free trade. What I'm talking about -- it's not like we're starting from free trade, we're starting from managed trade, and what I want to do is change who manages it. (applause)

Just four points. If we can get that California delegation to do things on trade and investment, the first one would be a national ban on all subsidies to investment by state and local governments. Period. It's a zero-sum game. If they're going to invest in America, they're going to invest America with or without our paltry subsidy. The next question is where in America, and that's a game California can only lose. There is no way we can play that game and win, and it gets worse when you're threatened with outbound companies. So you open the door, and we can't solve it ourselves. That has to be solved at the national level, 'cause we're caught in a zero sum game.

Regulations, that's been a big subject. That's one of our big industries. We go with regulation. We need strong and clean regulation, including the one I'm experiencing now. (laughter) We have biotech. (more laughter) OK. I'll give you thirty seconds worth. We're sitting on a $50 billion baby. It is the best growth industry to have happened. We are the leaders in the world. It looks like we'll get maybe $50 billion in biotech business in the Bay Area alone, unless we kill it. We won't kill it with taxes. We won't kill it with highway traffic or with high wages. We can kill it with dumb regulation. We need regulation. The game is not no-regulation or regulation. We tried not regulating for ten years. It didn't work. It's dumb regulation versus smart regulation. Why not set up an office staffed by four people who know something about biotech, who take pre-emptive action, who stay in touch with the guys, who keep fostering those people here rather than having no communication and discover we literally killed the -- you know, what laid the golden <u>oeufs</u> (French for eggs, if you're wondering, transcriber).

Finally, you know, you can slap a dozen to twenty-five bucks on every car entering and exiting a California port as part of our infrastructure program or user charge; and you probably won't pass the cost on to users now that there's competition. It has to go both ways, and there's no way to avoid it. But that's just a small kind of item. It's the real regulation. If we change our regulations so that they're performance regulations and not that you have to put a Number Six paper cup over your smoke stack, we encourage technology. We strip bureaucracy. We create new industries. America's already behind in the environmental industry. The Germans, the Scandinavians, the Japanese are way ahead of us. The only way you get innovation is that way. And that's definitely in the realm of things we can do by ourselves. Thank you.

SPEAKER BROWN: Now, I think that we should go to the Members who had questions. Ms. Archie-Hudson.

<u>ASSEMBLYWOMAN ARCHIE-HUDSON</u>: Yes, my question is to Mr. Hayward. We talked about the need for the state to have an orchestrated, coherent vocational education policy. I am wondering whether he also thinks it critical to have an infrastructure which has a managed vocational training policy?

SPEAKER BROWN: Now I believe that Senator Watson had a question as well.

SENATOR DIANE WATSON: Early on I wanted to address this question to Commissioner Garamendi. What are we doing in terms of the insurance companies, and the fact that they have the actuarial data and set the rates and we don't know what it is?

SPEAKER BROWN: Mr. Richter, to whom are you directing your question?

ASSEMBLYMEMBER BERNIE RICHTER: To the University of California and the California State University of people who are on your panel.

My question is, what will you do to change class loads, to get professors who are tenured to teach in the classroom, to bring those resources that students have paid for, make them available to students, to stop the incredible amounts of money that have gone on golden parachutes to people leaving the administrative structure? What will you do? Will you accept the Legislature's intervention to deal with these problems ourselves?

SPEAKER BROWN: Let me get the last question of a Member, Mr. Connolly. What is your question and to whom.

ASSEMBLYMEMBER TOM CONNOLLY: This is to Commissioner Garamendi. Why aren't we prosecuting Workers' Compensation fraud cases in criminal courts?

SPEAKER BROWN: What a splendid way to ask a question. We are going to open a unit for Members of the Legislature and you are teaching it, Mr. Connolly. Let me now ask the University of California representative for a response. Mr. Cohen.

MR. STEPHEN COHEN: I have never represented the University of California. It would give me great pleasure to take a crack at it. I'm the tenured professor you talked about: (a) I do teach a full load; (b) I run a research center that I finance with funds exterior to the University. Most of the funds -- because we just made a complete accounting for the Senate Confirmation hearing for my partner, who was named as the Chief of the Council of Economic Advisors. An overwhelming amount of the funds goes to student support. We sit there, and we work with the students for a long apprentice period, because we are not a department. I am sure there is waste in the Universities, I think we have far too much administration, much too much. I think a lot of the administration is due to inane regulation. That is, you pass an inane regulation for a very good reason: protection of frogs. And then it creates the Frog Protection Office. I have to fill out the human subjects form when I go around interviewing CEO's in my work. CEO's are not human subjects that need protection. No problem there. So the regulation itself generates the bureaucracy. The bureaucracy eats up the dough.

Start with the reg's, be serious. If you are just going to get them to swear, "We'll cut the fat," they'll be back here, like everybody else; everyone is going to cut the fat. They are not. The "fat" is functional in terms of the regulation. Serious attack on bureaucracy starts with the reg's that generate it.

SPEAKER BROWN: Assemblymember Bornstein has a question.

ASSEMBLY MEMBER JULIE BORNSTEIN: Thank you, Mr. Speaker. This is a question directed particularly to Mr. Duncan of today's panel. In focusing on issues of transportation, market availability and quality of life, is there anything to be gained at this point in time, in looking at the state in different regions where those elements come out on the positive sense in encouraging business to come, as we address these issues in other areas? Areas that exist now and do have a good quality of life, good transportation, can we sell that now while we work on the other areas?

SPEAKER BROWN: Mr. Duncan.

MR. HARLEY DUNCAN: I would think that you could. I guess the way I was referencing those items, is that those are factors that are important to business location, that I would argue are more important than the state and local tax issue. I think the way I would try to answer your question, is that what I would think you need to do, where you ought to focus on, is a strategy that looks at the state. It has to be broken down by region in a state like this; looks at the strengths and weaknesses of those various regions; and you have to make some tough choices about where you want to put your money and where you don't want to put the money.

SPEAKER BROWN: Thank you, Mr. Duncan. Mr. Peace, Assembly Member from San Diego, Chairman of the Insurance Committee.

ASSEMBLY MEMBER STEVE PEACE: Mr. Davis, you heard earlier the concerns about the bio-tech industry and, perhaps, the potential of our killing it. You've recently led fights to preclude the opening of a new low-level nuclear waste facility. I am wondering if you've got a solution for getting all that low level radioactive waste out of warehouses near our homes?

STATE CONTROLLER GRAY DAVIS: I am as interested as you are in seeing the bio-tech industry prosper and continue to act as a source of employment. But, like all of us, I have an obligation to make sure what happens in this State is done safely and properly. I am troubled by the site that is chosen and the competence of the operator, U.S. Ecology. They finished last in the competition to manage this facility, and only got the designation from the Health Department because all the winners pulled out. My point is, let's sit down with bio-tech, medical and university low-level waste producers, and see if we can't find a way to accommodate their waste. And let the nuclear industry, basically, find a way better site for the higher-level waste that they generate.

ASSEMBLYMEMBER PEACE: I just want to remind you, that while you sit down, low-level waste is currently sitting in warehouses all over this state. You may a concern about the site; I have a concern about the current sites.

SPEAKER BROWN: Mr. Hayward, you are now at the podium for purposes of responding to Ms. Archie-Hudson's question.

MR. JERRY HAYWARD: I was out of the room. I did not hear the question, Mr. Brown.

SPEAKER BROWN: Well, you didn't have to be in the room.

MR. HAYWARD: The answer is, yes. (laughter)

SPEAKER BROWN: Ms. Archie-Hudson, why don't you put your answer quickly to Mr. Hayward.

ASSEMBLYMEMBER ARCHIE-HUDSON: Shouldn't we have, in this state, a mechanism which traps all of the vocational training moneys, and then redeploy those moneys out to agencies and institutions, based on a coordinated state training policy?

MR. HAYWARD: The answer is, yes. (laughter) I'm not sure about trapping the money first. The important thing, though, is a coordinated plan, so that every educational agency has a role, knows what it's role is and that there are priorities set by the state to do that.

SPEAKER BROWN: Thank you very much, Mr. Hayward. Now, Ms. Moore, for your question.

ASSEMBLY MEMBER GWEN MOORE: My question is to Ms. Nordeck, and it is a simple one. If you could select, or do something about, any one thing that you felt was most restrictive in your efforts to try to establish your business, what would it be?

MS. ENITA NORDECK: I'm sorry to say, it's sort of like raising children; there is no one simple answer. But, one of the main problems in my business is that we have locked up our natural resources. The wealth -- I don't care what anyone says here -- the true wealth of this state is the natural resources. We have riches with special interest groups and individuals, but our wealth is the natural resources. And we have to make wise use of it; and that is what's hurting my business and businesses like mine the most. (applause)

SPEAKER BROWN: Thank you very much.

Assembly Member Epple, Chairman of the Public Safety Committee.

ASSEMBLY MEMBER BOB EPPLE: Yes. Several people have testified that three quarters of the new jobs that are going to be produced here in California in the coming years will be in small businesses. Yet, small businesses have an 80-percent failure rate. What I want to know is, what can we do to best leverage the money we invest as the State of California, to produce the greatest increase in the number of businesses that don't fail?

SPEAKER BROWN: All right. I am going to ask one of the members of the panel who is in the specialty category of business finance. Ms. Darnes.

MS. ANNETTE DARNES: Ms. Darnes, of Union Bank. I run a program where I provide working capital to women and minority-owned businesses. We've been doing it for approximately two years. And, rather than looking at the failure rate, we have decided to look at it from a success rate. We have found that throwing money at the issue is not the sole reason for success or failure. One of the real key programs that we have is the technical assistance program. One of the things I have listened to within the last couple of days are all of the strategies that deal primarily with large businesses. I think we have to deal with those issues and those things we have at the table today. And those are small businesses. They are here. They cannot take advantage of all the opportunities off shore. So, we need to start looking at their needs and also the needs of people in inner cities. They are not going to be able to go to Idaho. They are not going to be able to go to Utah. They are not going to be able to go to any place. The only way they are going to have economic empowerment is to be able to establish those businesses where they are. You, at the state level, can encourage that process.

Now, in banking, we have tons of regulations. One of them is a plain old low lending liability that I have to deal with. We've decided to put a program in place where we provide working capital. But I'm not going to give a small business my money without being able to be there to help them succeed! It makes it very difficult for me when I want to walk in and counsel them and have to worry about if something goes wrong, that they are going to come and sue me about it. We've decided to do it anyway.

One of the other areas where we have a problem is the federal regulation. Every time I violate what we call underwriting guidelines, which means they don't meet the standard financial profile, I have to put them in another category and have to reserve against that additional capital. That makes doing business with these kind of firms not a profitable endeavor, and we are in business to make money. You need to work with those existing institutions and the existing format, to make it easier for them to go out to do what is necessary. The regulations are already there. You don't need anymore.

One of the areas you have is the State Guarantee Program, that is awful, absolutely awful. They are in the business to maintain their jobs; they are not in the business to provide guarantees for small business. (applause) You go to them for a loan and they say you have to be around three years. Women and minority businesses are not going to last three years if they don't get help before that. So, the State Guarantee Program that helps banks carry the risk beyond some period in the future needs to be improved. Another problem with that program is that you put your lowest-level, most unqualified people in there. These small businesses need high-quality technical assistance. I don't want some person who has just walked out of some university, who has never been in business, counseling a business on what to do. (applause) Those are kinds of things you need to look at. Thank you.

SPEAKER BROWN: Mr. Caldera, Assembly Member from Southern California, has a question.

ASSEMBLY MEMBER LOUIS CALDERA: Thank you, Mr. Speaker. This question is to Mr. Robert Friedman. You very briefly mentioned micro-enterprise programs, and I wonder if you would share more of what these programs entail?

MR. ROBERT FRIEDMAN: Actually, Etienne LeGrand, who runs the San Francisco Women's Initiative For Self Employment, is here. I should, perhaps, defer to her. But, basically, the programs meet folks where they are. They provide the basics of putting together a business plan, an access to low amounts of capital -- $1,000.00, $5,000.00 -- to allow them to take small steps forward.

SPEAKER BROWN: Now we will go to the audience for about two or three questions.

MS. SANDRA JERABEK: I am with Californians Against Waste. The Legislature has already created a powerful jobs creation program for California, and many of us don't know it. This jobs creation program is recycling. Recycling in California can create 20,000 additional jobs in the next ten years and add millions of dollars every year to our economy. Many of these are manufacturing jobs. Recycling is not just collection. It is industry that is manufacturing and it is a great example of how the environment and business go hand-in-hand. Right now, we are shipping a lot of the materials we collect for recycling out of this country and out of this state, to be made into new products which we then buy back from other countries.

My recommendation to the Legislature is that you strengthen these programs; that you create new programs which provide financing for re-use and recycling based industries who want to manufacture here in California and create the added value and the job wealth here in California. I would suggest a different perspective, rather than locking up our natural resources. We are collecting natural resources in our cities today, we are throwing them away and shipping them abroad, so let's manufacture here in California and create 20,000 job in the next ten years. Thank you.

SPEAKER BROWN: The President of the California Small Business Association is on the far right mike.

MS. BETTY JO TOCCOLI: I'm President of California Small Business.

I want to speak to the perception of small business. We represent over 35,000 small businesses in this state. Getting data on what small business really is in California is not easy. We recently did a survey, which is available to any of you, with the cooperation of National Small Business United and Arthur Anderson & Assoc. What it said about California small businesses is, that they are sitting back, they are waiting to see before they do any investment in new jobs. We have a plan for you, and it has four points. The four points of the plan are: We seem to have consensus that the new jobs are going to come from small business. Our plan is, what can we do together to make these jobs happen? Depending upon what number you like, if there are 400,000 small businesses in California, if each adds one employee, we are half way there. If each adds two, we are more than half way there. We are fully there. And here is how we can do it: we need to work together, but we are not sitting back and waiting for legislation to pass or things to happen. We are doing it ourselves. It is not only our survival, but it's for the good of California and it's what entrepreneurship is all about.

One, on regulation, we probably have enough. But we are not going to tell you not to have some more. We do have one request: Put us at the table when you are doing the preparation. Ask us what effect its going to have on us. You've taken away our voices; we lost the small business advocate. Even though I know Jackie Speier and Senator Roberti are trying, we have lost the Small Business Committees. Everybody wants to speak for small business; ask small business what we need. Ask us the ramifications. We like 1672, the health bill. But what is the ramification to us if you put regulations in place for employee choice. We don't want to be part of the clean-up bill. We don't want to be part of the repeal. We want to work together to make things happen in California.

Two, access to credit and capital. Things are in place; we have the specific details that we can give you.

The third thing is, yes, we need access to affordable health and affordable Workers' Compensation. We must have that to reinvest in society. Last, but not least, we offer you the challenge: join us. Let's make jobs; and small business will make jobs in California. We are here to work together. Thank you.

SPEAKER BROWN: Mr. Tsukada, you are the Senior Vice President of Mitsubishi Corporation, and you are the General Manager here at the Los Angeles Branch. The question of international trade is of paramount importance to the economy of California. May we have a comment?

MR. AKIRA TSUKADA: Thank you very much, Mr. Chairman. I would like to touch upon what has not been mentioned until now. That is the role of foreign invested companies in California. I am General Manager of Mitsubishi International. At the same time, I am the President of the Japan Business Association, which was formed more than 30 years ago here in Southern California. We now have a membership of some 700 Japanese-affiliate companies. We have some 60,000 Californians employed here and over 100,000 in all of California.

When we talk about the international investment or international trade, the importance is on the confidence or reliability of that kind of thing. So, with that, I would like to touch upon two or three points.

One is about the image of California. Yesterday, Mr. Stephen Levy mentioned the three "T's" as of key importance to the state; those are trade, technology, and tourism. Around this now, I have to look at how California looks to the outside world. This is common for investment and also tourism.

Now, we need to emphasize the positive aspect of California. We need to show that we are achieving here. Our achievements are reflected favorably both on tourism and, also, attraction of foreign investment; especially so, when the Assembly Democratic Economic Prosperity Team made the subtitle of their report, Customer Satisfaction State. In order to appeal to the outside, I think that kind of image improvement is necessary. How we can do this? I don't have a single answer to that. But, probably, how about making it the statewide campaign, so that everyone attending here can join to start writing a picture postcard to the overseas friends.

An aspect of the international trade and investment area, "the 21st century," is a term that means the "Century of the Pacific." In order for the United States to be the export super power and attain the economic conversion in California, exchange of investment is necessary with foreign countries, particularly, in the case of California, with Asia and the Pacific. Those are of vital importance. Thus, as mentioned by some professors, it will become increasingly important and increasingly visible hereafter. In that sense, to invest in California, we have been privileged so far because the state investment policy is open and non-discriminatory. Plus, also, today the presenters, Mr. Friedman and Mr. Davis, have expressed more positive policy accommodation to allow the participation of foreign investors, which certainly we welcome.

About California playing a role overseas in the marketplace, just knock at the door. Amazingly, many countries have various investment promotion policies. Taking the example of Japan, government offices are quite dedicated to provide access and assistance by offering low-interest finance or by introducing Japanese local contacts who may be interested in partnership with California exporters. Activities by JETRO, Japan External Trade Organization, Japan Bank, and Japan Development Bank are overwhelming. The local Counsel General Office will offer quite handy access to what they have. Just knock at the door, and Asia Pacific will provide another opportunity as California's new frontier.

About the international trade aspect, I suggest briefly, that you Californians get out to the field. You show and participate in the Asian market. You seem to be, up to now, talking, but not traveling. Please be in the field. Thank you. (applause)

SPEAKER BROWN: Thank you very, very much. Let me go now to the participants on the panel who were at the Summit in Little Rock. Ms. Shockley, who is also a part of an alternative way in which to rebuild L.A.

MS. BRENDA SHOCKLEY: Thank you, Mr. Speaker. With your indulgence, I would like to make two points. The first is that I would weigh in on the side of those who have emphasized the importance of investing and developing in human capital. And I would ask that these proceedings reflect a recognition that persistent poverty is a result of inadequate and failed economic policies, and not social polices. Our social problems are a drag on the economy. If we have an economic policy for this state that is more inclusive and that recognizes that the growing poverty is a function of economic conditions, that we will go a long way in having a fuller economy.

My other recommendation, and recognizing Ms. Nordeck's frustrations and agreeing with many of them, is that yesterday it was suggested that with the report of the Governor's Council on Competitiveness, as well as Mr. Vasconcello's ADEPT Report, that you had enough information to go into some room and go some distance in solving the economic problems in the state. I suggest that one other document is missing. A document that looks at the duplication and the inefficiency related to the programs that are related to economic development strategies. Everything from the Employment Training Panel to JPTA to a number of the other loan guarantee programs and the like. I would hope that these economic strategies would also include a multi-agency coordinated effort that looks at families and people as wholes. And, understand whole -- W H O L E. -- understand that there is a need to fully address these issues; issues that have far too long been ignored. And that this report, this analysis, be time specific, and that it have the same kind of priority, the same kind of commitment of resources, and the same kind of political attention that the other two reports have received. Thank you.

SPEAKER BROWN: Mr. Buford.

MR. WESLEY BUFORD: Thank you, Mr. Speaker.

We have talked about economic development and the lack of it in the inner city. I am part of a group called Urban Venture Partners, which is made up of TELACU (The East Los Angeles Community Union); Rally Paul & Mitchel; the Bedford Group; and Pacific Development Partners, who are building town centers in inner cities.

Town centers are a mixed use of retail, residential, and light manufacturing that empower neighborhoods to have not only employment, but business ownership and new residents. If you can imagine $450 million in new construction; and it's been said that new construction is what is needed to stimulate our economy. If you can imagine 10,000 new jobs; 1,000 new minority-owned businesses; $1.4 billion in annual sales revenue, with $14 million in annual sales tax; in addition to a $196 million in payroll; and 4,000 new residents, 80 percent of them new ownership and the remaining Section 8 housing. That's what we are talking about. So we have a program which I think is a good candidate for what Mr. Gray Davis referred to as "proposed partnership." And, with that, I will defer to Counselor Presant.

MR. SANFORD C. PRESANT: The important thing that we have been talking to Congress about from the American Bar Association has been, where is all the money going to come from? In that regard, Mr. Duncan told us earlier that state taxes are not a big element of much of the big corporations' expense structure; and this probably is true.

The fact of the matter, however, is that corporate America and Wall Street simply are not going to invest in America's inner cities and, particularly, not those in California. They are not going to do it, unless the proper yield is there. And the yield is not going to be there, historically. And that's what we found from inner city investment without tax benefits, and tax breaks, and tax credits, meaningful tax credits. This is not money thrown down the tubes, as we see it; this is money that promotes growth. And, as Ms. Nordeck said, a huge new tax base gets grown out of the small amounts of money to induce people to invest in these areas.

Now, this type of investment at the state level can be promoted by tax-exempt bonds for inner city investment, particularly targeted. It can be done, as Mr. Davis said, with partnerships, with partnerships with business outside the state, and I think that is very important. I think without that, Wall Street is not going to come; without that, corporate America is not going to come. They have stockholders to answer to, and they are yield driven. If you give them enough incentives so that you kick up the yield, they will be here.

Look at the low-income housing market. The major Fortune 100 companies of America are putting hundreds of millions a year into low-income housing. And that is not for the cash benefits from the rents from the low-income housing. That is because the tax credit makes it economically viable, and it's a worthwhile thing to do.

There are REITS springing up all over America, real estate investment trusts. These have tremendous amounts of money to lend to real estate and to invest in equity ownership of real estate. You will not have them come to our inner cities, unless we find some incentive to get them there, and that includes these flow-through credits.

The regulation we've heard a lot about -- forget the regulation. That's what killed your enterprise zones. But the concepts are good, the tax credits, the ability to expense your money that you place in an investment in the targeted area early. Exemptions from the passive loss rule, so that it's not only corporate investors who can come in -- these are all things that we have to consider.

I think the clout in this room is such that it can easily make its voice heard in Washington, and have people stop worrying about cleaning up the mess that's dripping on the floor, and fix the patient that's bleeding and causing the mess.

I think the small investments, the small businesses, that's where you are going to have your greatest growth in California. That's our wealth of resources: those are our people. In order to get them going, we have to find capital for them, and, to find capital for them, we are going to have to find the incentives to get it there. So, let's start with the taxes and see what we can do.

SPEAKER BROWN: All right. Mrs. Escutia, you have a question.

ASSEMBLY MEMBER MARTHA ESCUTIA: Mr. Speaker. Yes, I just have a question to ask of one of your panelists, Professor Raul Hinojosa-0jeda; and that is, Professor Ojeda, what do you think with regard to an economic development strategy, what elements are critical to incorporate the Latino community into that and to be a viable segment of our labor force?

PROFESSOR RAUL HINOJOSA-OJEDA: Well, I think that this is a very serious problem for the future of California, in the sense that the largest growth of new entrants into the work force, the largest growing component, will be Latinos and Latino immigration. Thirty percent of the labor force growth in this state, at this point, comes from Latino immigration, which is an important element for the growth of the major industries which have actually been succeeding these small businesses. You are talking about the garment industry. However, the major issue that is going to be faced is that we don't have, yet, an adequately-geared educational system for, and financing of, that education system for moving this element of the population and the generation that is now in the schools, to having a higher level of economic productivity. That, I think, is the basic issue.

However, the other issue I would raise in this context is the relationship with Mexico and the North American Free Trade Agreement. I think yesterday, there was a very strong polarization of views here that, unfortunately, is characteristic of the gridlock that we've seen in Washington: a very pro-stance and a very anti-stance. I think that what is emerging now from the Latino perspective, both in Sacramento with the House Resolutions that have been passed unanimously, as well as throughout the country, is a vision of a third way of a partnership with North America. We are not going anywhere; we are stuck with one another. In fact, we are more linked with Mexico through this migration dimension than through the trade dimension. Only one-half of one percent of California's economy is linked with Mexico. The migration dimension is the much more important one.

What we are developing is a perspective that says, "We need to look at North America as a region that is an integral part of the high-wage, high-productivity future of the United States." NAFTA alone is not enough to do the trick to create the employment base in Mexico that is going to create a new labor market reality here in North America. In addition to that, you need what is being considered as the worker adjustment programs, on both sides of the border, and the environmental plans that will be able to harmonize standards on both sides of the border. And, finally, what is basically being called a North American Regional Development Bank that is going to address the fact that we need to clean up the border infrastructure, along that border, and, to a certain degree, address the source of the migration, which is rural poverty in Mexico. I think that we need to begin to look at the California reality as integrally linked with this North American future; that we need to still visualize and to develop a policy framework. I am glad to say that the Clinton Administration is going beyond just believing that free trade is going to be the answer, and that we need to start looking creatively at a whole series of parallel aspects if this is going to become a reality.

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ANNOUNCER: The afternoon session of day two of the California Economic Summit now begins, live from the Biltmore Hotel in Los Angeles.

SPEAKER BROWN: Let me ask you to take your seats, please. Kindly find your seats and we can commence the afternoon session.

The infrastructure of our state has been subject to great criticism, because it is aging, because it is need of repair, because it is in need of expansion. There have been a number of people who have criticized CalTrans and other agencies that have some responsibility for the infrastructure at the local level. Sometimes the authorization for bonded indebtedness that would address the issue of the infrastructure has not been approved. On other occasions, some have said the environmental barriers and the environmental standards have retarded the effort to improve our infrastructure.

Panel three will be devoted to just this topic, and there's no more fitting an individual to lead this panel than the Treasurer of the State of California, who has been here since yesterday morning, quietly observing and making notes. I said to her that I'm very pleased that I did not attend her law school. I always hated the kids in the class who took notes. I always relied upon my memory, and the kids who took notes always got better grades, because they were far more accurate. I am absolutely certain that if we had all been confined to not taking notes, I would have sparkled. (laughter) The Treasurer of the State of California, who was introduced in Eureka, northcoast area, as the sister of Jerry and the daughter of Willie. The Honorable Kathleen Brown.

And before my "daughter" speaks, her grandfather is here. My "father," the former Governor of the State of California, the Honorable Edmund G. "Pat" Brown, Sr.

STATE TREASURER KATHLEEN BROWN: "Dad," thank you. And to the real Dad, a bigger thank you. Willie, I would have loved to have been in law school with you. I think between your not taking notes and my taking notes, we would have been a dynamic duo. So I appreciate your welcome here today.

Speaking about infrastructure is not one of the topics that lights up the eyes of most people I meet in the State of California, but you've asked me to talk about it, and I'm one of those people who happens to love to talk about bonds and the hidden benefits of riding the yield curves, and how we can build and invest in our infrastructure. So today, I'm going to touch on three main points.

First, what has California accomplished in the area of infrastructure investment? Second, what's our rationale for infrastructure investment? And third, can we do it better?

First, what have we accomplished? You know, we've heard a lot of problems discussed over the last two days, and I want to tell you that Californians should be proud of their generosity and their commitment to the future of California, as should the Legislature of this state, which has put bond measures on the ballot year after year after year. And the voters, with unending generosity and commitment, voted for those bonds. Thus, in my two years as Treasurer, I have been charged with the responsibility of overseeing the largest public works program in recent history. Just in the last two years, I've sold nearly $9 billion of bonds to build schools and universities, transportation systems, prisons, housing, water systems, and sewer systems. Add to that the $2.2 billion that we have sold as a state in so-called private activity bonds for manufacturing facilities, for health facilities, for the private universities and colleges of our state, and for environmental programs through the pollution control authority. You add it up, and California in two years has sold $11 billion worth of bonds to build this infrastructure. Put that up to the test. Our President is talking about expending $15 billion for the entire nation, so Californians should be proud. As I respond to our President's challenge yesterday that California needs to do its part, I would say, "Mr. President, California and Californians are ready, willing, and able to do our part."

Now what's the strategy behind infrastructure investment? Bonds and building bridges in the abstract can become just pork-barrel politics. But the truth of the matter is, in our State of California, we have some pretty good reasons for investing in infrastructure. First and foremost, we're playing catch-up. Since the 1960s, California's population has nearly doubled. Think of it, 31 million people. And having added this enormous population, we've basically grown the size of the entire state of Texas, your home state and birthplace, Mr. Speaker. So we've had to play catch-up to accommodate our population growth and to ensure environmental quality and quality of life. We have had to invest in infrastructure so that we could accommodate this great California.

A second reason for investing in infrastructure and financing them through our general obligation public works bonds and private activity bonds is because it does provide an economic stimulus to a lagging California economy -- 800,000 jobs lost; an unemployment rate that hovers around 10 percent. We are able, by these infrastructure programs, to put real people to work on real jobs that pay real wages. As Jack Henning said yesterday, we shouldn't just be talking about graphs and curves and numbers and statistics; we're here to talk about real people. And our bond programs do finance the jobs for real people so we can build California.

There's another theory and another rationale for California's continued investment in infrastructure. It's the productivity punch that is described by David Aschauer, the economist, and he talks about every dollar that is invested for public infrastructure spending will yield a minimum of 45 cents investment in the private sector. And here in California, to the business leaders who are here and the business leaders in the audience, we're going to be around for awhile. We're going to be around for a whole long time, and we are making our investment in California, and we want you to join with us.

Compare this, however, to what we did in the 1960s. The 1960s, when my Dad was Governor, was an era in which we invested in aqueducts and dams and highways and schools and universities. It was equaled by a robust economic growth of our state, so that productivity punch was evidenced in that era. If you contrast then, the 1950s and '60s to today, you see a rather startling contrast. In the 1950s and '60s, out of every budget dollar, approximately 20 cents went into transportation financing. Today, that number is closer to 8 cents, and the interesting point is, that's good news. It went up from 6 cents after the Proposition 111, so that gives you a little bit of contrast from the '60s to today.

Third, can we do better? You bet we can do better. In the short term and the long term I think there are strategies that California ought to embrace. First and foremost, we have got to liberate local governments from the yoke of the anti-democratic two-thirds majority vote, so that local government officials can make the case to their people about investment. Whether it's schools or whether it's sewers, we need to build for California's future, and the local government officials ought to have the ability to do that. It's democratic, it is more fiscally responsible, because at the local level when you pass a G.O. bond, you identify the money to pay for it. We need to tell our public -- and they do understand that there's no free lunch -- that somebody's going to pick up the check; somebody's going to pay; and this would be an extraordinary structural and long term reform that would truly facilitate California's economic growth.

We are competing with states around this country that are not growing the way we are, and only three states have the two-thirds' vote requirement: Idaho, Missouri, and Oklahoma. That's it. We ought to join the 20th Century before we hit the 21st Century and put this anachronism to rest. Second, I think California can be a better partner with local governments. We can, through the use of bond banks for infrastructure finance, through the resource of revolving funds and loan guarantees, be a better partner with our local governments. And third, I think we have got to look at the new technologies which you will hear about. High speed rail. Electric cars. Fiber optics, which Sam Ginn talked about, a telecommunications network for our state so that we are in an infrastructure mode for the 21st Century. I would suggest, however, that we better make sure that California gets a piece of the action when we invest, not only in these new technologies, but in public works. Today I can sell $11 billion dollars in bonds, but there's no guarantee California workers and California companies are going to get the jobs. We ought to change that. Those are our tax dollars, and we should have partnerships and joint ventures that should be required. And I would recommend that you consider legislation in that regard. Let's put California first.

Now I love bonds and I love infrastructure, but I cannot conclude without saying and really echoing what we have heard over these last two days -- the most important infrastructure in our state is our people. It's our kids, and it's our workers. Unless we embrace them with the same passion that we embrace fixing Workers Comp -- which I happen to think does need to be reformed -- but until our business leaders join with our school leaders to say we need to shake-up and reform and enhance and improve our education system in this state and our training programs in this state, so our workers can be workers in this century as well as the next century, which is right around the corner, then we will have failed our most important challenge -- to invest in the future.

Mr. Speaker, I applaud you for convening this Summit. This was a high-risk venture, but you're a high-risk kind of guy. The stakes are high, and I think that the expectations are high. Over the last two days, we have seen floated ideas and facts and solutions that are meteoric in their scope and their breadth. What is needed is the political will, the imagination and the willingness to weave together these facts and these ideas for a plan for California's future. I know we can do it in this state, if we have that willingness and political will. So I applaud you and thank you, and I look forward to doing my part to getting California back on track.

SPEAKER BROWN: Thank you.

A second portion of California infrastructure lies generally in the realm of the private sector -- energy issues. Our next presenter is a gentleman who served on the PUC for several years and now heads one of the major utilities in California. He's the Chairman of the Board of Southern California Edison, Mr. John Bryson.

MR. JOHN BRYSON: Thank you, Mr. Speaker. Ladies and gentlemen, as the head of the electric utility that serves most of Southern California, I bring a perspective not just on energy issues, but also on the special concerns of one of the largest, fastest growing mega-cities in the country. I want to focus my remarks in these brief six minutes on the things I know best: energy, energy efficiency, and retaining businesses in southern California. But let me, at the outset, reinforce the message that you've heard so often from so many people here in these excellent meetings. There are major issues that need to be resolved: Workers Compensation -- it's broken, it must be fixed. California's regulatory morass that's been addressed eloquently by many. Health care -- it's not only a national problem, it is a California problem. Six million Californians have little or no health insurance, and that leads to higher, not lower, costs. We need to address that. That's a cost for the private sector. And finally, and maybe most importantly, educational reform. It is absolutely key to providing workers with the skills to perform the jobs that will be available in our high technology 21st Century.

The challenge for California, I think, can be put simply. How can we restore our economy with jobs for all the people while maintaining the quality of life in our state by controlling and reducing environmental impacts? I thought Kathleen Brown made an eloquent case for the kind of infrastructure investment that will make California work, not just now but in decades to come. I, too, have spent much of my career dealing with things like sewer systems, waste water, and so on. We need transportation systems; we need the schools; and we certainly need the energy facilities.

And I want to focus on a special point in thinking about infrastructure. Kathleen Brown said it could be pork barrel; we need to focus on the right things. She's absolutely right. In my judgment, one of those right things is energy efficiency. That is, we need to focus on the kind of infrastructure that promotes efficiency in use, such that we achieve both economic and environmental goals. Energy efficiency makes economic sense; it makes environmental sense; and it is a key to our competitive success.

Our major international competitors like Japan and Germany, for example, use only about half as much energy for each unit of economic output as we do in the U.S. Energy-efficient electric technologies like lasers, infrared heating, microwave applications, induction furnaces, can help businesses here meet the tough air quality standards, while at the same time improving product quality and enhancing efficiency. At Southern California Edison, we seek to reach out to these customers at a center here in Irwindale, a unique center in the country, which shows through hands-on demonstration the way these technologies can be used by businesses in our area. State government, I think, can go further; it can take a lead role in transforming the California economy into the world's energy efficiency leader. We can, and should, do more than we do now to coordinate the state's industrial development programs, tax policy and regulatory agencies to encourage economically sensible energy efficiency investments. In doing that, we will create the basis for world class economic growth on a sustainable, environmentally responsible basis for the next century.

Utilities can provide much more than energy efficiency programs to help our economy. And we, at Southern California Edison, see a special responsibility in that respect. We are in nearly daily contact with most of the businesses in greater Southern California. And, as a utility, we think we are uniquely able to work with those businesses, not just on immediate energy services, but on a broad range of issues affecting business retention and growth. These issues include environmental regulation, business permitting, worker compensation, site selection, technology transfer, affordable housing, export potential, and financing.

Now, we are not experts in all those subjects, but we do have close contact with businesses, agencies, and the 178 municipalities in our service territory that do have that expertise. And the role that we're seeking to develop is that of the information broker or, sometimes, the matchmaker. We frequently can and we have often in the last two years intervened at an early stage to help resolve problems that might otherwise drive businesses out of our state or block job-creating business expansion here. Last year, we were instrumental in successful business retention and development efforts involving 80 companies and 20,000 California jobs. And we could do even more. As a matter of state policy, California should seek to maximize its use of the business retention and development resources available through major utilities.

Energy efficient infrastructure can also help the state make the most of its resources. An important case is electric transportation. Even countries like China, less economically developed, or sparsely-populated Australia, have railways that run on clean efficient electricity. Yet here in California, our freight trains are driven by diesel locomotives. Rail electrification requires an initial investment. That may have been the stumbling block to date, but that investment, like so many in infrastructure, will be paid back rapidly and many times over. If we could electrify all the heavy rail just here in the South Coast Air Basin, we could eliminate as much as 9,000 tons of nitrogen oxide emissions in the next 3 years.

In addition, we need to support the California Air Resources Board rules. Those rules have now been strongly supplemented by federal policy, both in federal energy legislation and in E.P.A. regulations, that will help jump-start the electric vehicle market. Cars are the major source of urban air pollution worldwide, and in Los Angeles we need to cut auto emissions by 70-90 percent in order to achieve healthful air. Electric vehicles are more than 90 percent cleaner than current gasoline-powered cars, even taking into account associated power plant use. They are also more energy efficient. Today, California leads the world in electric vehicle technology, but we can't take this lead for granted. We have a strong resource and many thousands of high-tech engineers now in the job market here in Southern California as a result of defense down-sizing. A strong electric vehicle industry could create tens of thousands of jobs and billions of dollars of economic development. The public and private sectors must work together, in our judgment, to re-deploy the skills of these engineers as we are, for example, in CalStart, a public-private consortium that is helping aerospace companies retool to build electric vehicle components. Of special importance, also, is the work being done by Project California, a public-private sector initiative sponsored by the California Council on Science and Technology. Project California's goal is nothing less than to create programs that will allow California to become an international leader in advanced transportation systems for people, goods, services, and information. About three years ago, state government requested formation of Project California, and I hope now that it will dedicate its efforts to helping implement those programs that are being created through the Project California effort. If we can do that, we will have helped solved the state's environmental and transportation problems, while creating world-class new industrial groups for 21st century technologies. Thank you very much.

SPEAKER BROWN: Larry Dahms is the Executive Director of the Metropolitan Transportation Commission, an agency in the nine-county San Francisco Bay Area, which also covers more than 100 cities. On the question of the transportation infrastructure of California and how it affects the economy, Mr. Dahms.

MR. LARRY DAHMS: Thank you, Mr. Speaker, for inviting me to advance a few ideas about how the transportation network can help to serve a growing economy. In the 15 years that I've been at M.T.C., I've seen two federal gas tax increases, two state gas tax increases, seven county sales tax initiatives, and a bridge toll initiative. And, while all these revenues are being put to good use, we are not yet turning the corner on mounting congestion.

A new President was elected advertising a new agenda for change; transportation agendas must change as well. Fortunately, change is in the wind and that change has to do with better management of the transportation system. This development didn't occur by accident. A congestion management plank was written first into the books by Contra Costa County in 1988 in order to convince voters there to approve a 1/2 cent sales tax. The 1990 California Transportation Blueprint imposed this new transportation discipline on all urban parts of the state. And this emphasis on management was reinforced at the federal level in December 1989 when the Internodal Surface Transportation Efficiency Act, known as ISTEA, became law, establishing a series of six management systems. ISTEA breaks other ground as well, both in terms of its investment mixture and the extensive delegation to states and metropolitan organizations.

First, ISTEA builds in local political participation, thus providing the opportunity to resolve project stalemates and to scrutinize project delivery schedules, two critically important management advances that have been demonstrated successfully already by local sales tax authorities.

Second, there are formula allocations of federal funds directly to metropolitan America by ISTEA, partly breaking the rural and inner city fixation of past federal transportation policies.

Third, an ISTEA program is designed specifically to finance transportation control measures that must be advanced to avoid the gridlock that will result from a failure to reconcile transportation and air quality objectives.

Finally, just as interstate standards assured a cohesive national transportation system, the ISTEA advances, for the first time in metropolitan transportation system's structure, are the key to assuring the integration of urban systems.

It is no wonder then, that full funding of ISTEA became the California transportation community's first recommendation to the Clinton Administration as it weighed the infrastructure program to jump-start the economy. The idea of fully funding ISTEA is not just to secure more federal revenues, it is also to ensure that any additional funding will be invested wisely.

Here in Los Angeles, we can remember well how the transportation system functioned during the '84 Olympic Games. We must remember, as well, that that startling performance during that brief period was owed entirely to management and operating strategies, not to building any additional facilities. We must not forget, either, that such strategies came with a price tag. Here we witness the exception to the general rule. Residents and businesses in Los Angeles amended their schedules to smooth the flow of traffic between Olympic Game venues. It is almost always the other way around. The transportation function is so optimized, in order to optimize business efficiency and lifestyle choices. The current "just in time" freight delivery service phenomenon dramatizes the extent to which this practice is successfully employed. At some point, however, this way of doing business will be thwarted, or perhaps is already faltering, by lack of investment in the transportation support system.

In urban America, the next transportation era must embody a new threshold of effectiveness by implementing a year-round operating strategy. If, as I believe, the health of a region correlates directly with the health of its urban core, then we must have a strategy that improves mobility throughout. For too long our programs have taken the easy way out -- focusing on the intercity connections and avoiding the harder problem of serving the cities themselves. The all-year-round operational focus will require funding flexibility that goes beyond that provided by either the California Blueprint or ISTEA. As one example, in the Bay Area, we are copying the freeway service patrol that has been introduced so successfully in Los Angeles. It works here, and it is winning rave reviews. A friendly tow-truck driver in the rear-view mirror is indeed a welcome sight to a stranded freeway motorist. This is clearly a case where the use of highway funds for operating, rather than capital, purposes pays big dividends. In fact, in one estimate, for every dollar you spend on such a service, you get back seventeen dollars in terms of motorists' time saved. But funds for highway operations are limited. In the case of roving tow-truck patrols and other such projects, the flexibility to convert capital to operating purposes would be advantageous.

Similar examples exist on the transit side as well. Consider the growing interest in expanded commuter rail as an alternative to freeway travel. Here, again, while ISTEA gives us some ability to shift highway capital funds to rail capital improvements, operating revenues continue to be the limiting factor. A new emphasis on operational strategies would cater to America's fascination with technology, as well. Over a billion dollars plus set aside in ISTEA for research and development makes the promise of technological advancement a real prospect at last for urban commuters -- but only if we build an institutional framework capable of implementing it. By building partnerships to advance, manage, and operate the metropolitan transportation system with the tools we have at hand, we will be laying the groundwork for harnessing the new technologies as they come on line.

A glitch remains, however. A basic tenet of good management is effective delegation. When local sales tax financing emerged as a major source of state highway system expansion, a de-facto delegation to local authorities surfaced. Now, the ISTEA provisions extend to state and local authorities considerably more discretion than before in determining how to best invest federal transportation gas tax revenues. Unfortunately, federal and state officials have not released the many procedural levers that, as a practical matter, thwart the intended delegation. Nor have some of the prior regulatory checks imposed by Congress and the state Legislature, which contradict delegation, been revisited.

Streamlining the administrative apparatus is as vital as advancing technology, however, if transportation services are to keep pace with growth. If one example is to make the point, consider the alternatives analysis process administered by the Federal Transit Administration. In its historic context, it is redundant, duplicating much of the analysis required by environmental laws. In the current context, it is too limiting, now that we have the challenge of allocating flexible funds to a wide range of choices. In the Bay Area, a BART extension to the San Francisco International Airport will link us to the commuter service CalTrain. This project has been held hostage for four years while the sponsors perform alternatives analysis. Is the analysis complete? Hardly. A full environmental document comes next as part of the preliminary engineering phase of the work. The sure products of alternatives analysis are higher costs attributable to delaying construction and extra years without benefit of the service. The benefits are not so obvious. I believe a small task force composed mostly of the managers of the bureaucracy itself could search and destroy the most flagrant impediments to timely program delivery, if given the charge to do so. (applause)

In summation, we are fortunate that recent legislative initiatives at the local, state, and federal levels have positioned us to approach transportation with new vigor and new promise. Just as the transportation network is a vital part of the economic foundation, so are local sales tax measures, the California Blueprint, and the '91 ISTEA, the building blocks of that network. Thanks to these initiatives, we are ready to serve the next phase of California growth. Let's hope this Economic Summit will be a catalyst for consolidating and advancing the new thinking that threads through from Contra Costa to California to the United States.

SPEAKER BROWN: Thank you. Mr. Daniel P. Garcia, the Vice President of Warner Brothers, is the man in charge of land use programs for this entertainment conglomerate. He was, for many years, a member of the Planning Commission of the City of Los Angeles, which is where I met him. Dan Garcia.

MR. DANIEL P. GARCIA: Thank you, Mr. Speaker, ladies and gentlemen. California is obviously at a crossroads today. As you've heard, we've lost a number of jobs during the last few years, and the jobs that we are creating tend to be lower paying than the ones we are losing. Other states are openly and successfully competing for our businesses. Meanwhile, our population is steadily growing. The fastest growing age segments of our population are the very young -- primarily Hispanic, Asian, and African-American -- and the old, who are predominantly white. Immigrants seem to be the popular scapegoat, while in cities like Los Angeles, the residential demographics and the voting demographics are becoming ever more disparate. Thus, the clever politician in the L.A. mayoral contest must appeal to the hearts and the minds of the white voters to win the right to govern the other residents, whose origins are primarily in the Third World.

In order to create new jobs, we must encourage economic development. I use the word "development" intentionally, because, over the last ten or fifteen years, it has come to be viewed with contempt in California. Yet, development does not just mean high rises or bulldozers. It also means housing, and hospitals, and libraries, and retail centers, and yes, by the way, jobs. It is a neutral phenomenon, which cannot go unplanned, but should not be stopped altogether, either, for to do so, our society remains stagnant and the ladder of opportunity remains frozen.

Have we planned well these last fifteen years for the economic development needed to sustain our growing population base? You can argue about it, but, in my view, not really. We have not prepared for or funded adequately our physical or social infrastructure at the state level, and there have been a lot of burdens on it. All too often, the politics of selfishness and exclusion have prevailed at the local level. And we've devised a planning system that does not usually consider economic growth as part of its mission. So today, despite its great climate, its vigorous and varied workforce, despite an excellent higher education system, despite a strong business and cultural infrastructure, we are struggling with high unemployment, strong under-employment, and the not unrelated diminution of revenues at all levels of government.

Do we need to fix it? Will it heal by itself? Maybe, if you believe the optimists; but it took years, I suggest, for our decline to occur, and it will take years for our economy to restructure. We have no way of knowing whether that restructure will be good or bad for people. In the meantime, the human and economic toll suffered by our citizens and by our governments will be truly painful, particularly for those of you in Sacramento who see it all too clearly. Thus, how are we here? Why are we here? What can we do to remedy it? I'll give you my prescriptions.

First, fix our attitude positively towards private capital investment. This state must recognize that there's a worldwide shortage of capital investment, and we must compete for it by creating conditions which attract it, not turn it off. This affects everything we do, from new impositions of taxes on businesses to restrictive banking regulations. And, please, we can't solve the state's budget crisis by passing it on to the cities. They will merely turn around and tax the local business community.

Second, obviously workmen's compensation is a concern. And, as head of the L. A. Chamber this year, I can tell you that I hear more about it from the small business person than I do from the big business person.

Third, we must, as Kathleen referred to, develop a state priority for public investment. Our policy must accept our population growth and prepare for it on the state level. And, in doing so, we must ensure that our quality of life is not disrupted. We simply can't ignore the population growth and hide it under our bed or in the ghettos and in the barrios. We need long-term financing for infrastructure development which, in my view, is not exclusively tied to the whims of bond revenue passages.

Fourth, we need to fix our water policy crisis. We have a political distribution problem, not a supply problem. We need to protect our environment, but not to the exclusion of the needs of our massive urban populations, particularly in Southern California. We need a balanced and fair program. The appointing authorities must remember that urban populations are greatly affected by water policy. And they, particularly those representing minority populations in large cities, need to be represented on such bodies as the State Water Resources Board.

Five, we need to change tactics on air quality. For over a decade, we beat the living daylights out of stationary sources of pollution. We've had enough of command and control techniques, of increasingly questionable net public benefit. The real air fight is in Washington, D.C., and we must, with our Congressional delegation, concentrate on the mobile sources of pollution Mr. Bryson referred to. We have to convince Congress that we can't save Detroit at the expense of California. And, while we're at it, let's look very carefully at behavioral modification techniques like Regulation 15, which have a limit in terms of their utility. I'd rather get every old clunker off the road and offer incentives to businesses in order to alleviate that source of pollution.

Six, let's get our environmental priorities in order. There are simply too many overlapping agencies. Too many agendas. I personally witnessed them. You can't always understand what the rules of the game are. We need to clarify each agency's role and eliminate conflicting and confusing jurisdictions. Also, we've got to figure out how to re-use lots of urban land that now lays fallow and undevelopable, because of the specter of unlimited liability, litigations, statutes, and bureaucratic requirements for cleanup.

Seventh, we need to develop a joint HUD-state urban policy. We cannot let our cities, especially in the south, rot and hope the state will survive. If the feds are going to downsize the defense and aerospace industries, then let's be first in line, working with HUD, for housing and community development strategies. And, as one example, let's make the state enterprise zone concepts coextensive with the federal zones.

Eight, let's figure out where our transportation is going and why. Thank goodness that the voters have approved Proposition 111. We have some money for at least one major public priority. However, I begin to wonder what the real mission is of the newly formed M.T.A., for example. Is it:

1. to provide greater mobility between and within existing population centers?
2. to become a stimulus for new economic development along <u>rail quarters?</u> Or,
3. to create new manufacturing jobs?

Well, the reality is that those are all lofty objectives but, from my perspective, I'd be happy if the transportation agency did any one of those things well, particularly the mobility. And, the reality is, from my perspective, that the cities and private capital ought to be the ones primarily responsible for development and job opportunities, and we need to make sure that the transportation agencies have the responsibility for transportation planning and clarify any confusion among SCAG, the AQMD, and the staff of the MTA.

Ninth, lets talk about the development maze. I ask each of you to buckle your seat belts and become a developer for a moment. It's loaded with spills and chills.

First, you must figure out the local land use planning and zoning scheme. In the City of Los Angeles, for example, this requires a lawyer, a lobbyist, a psychoanalyst, and a blank check, because virtually every decision can be appealed to the City Council.

Second, if you get through that process, you've got to go through the environmental quality review process, a process which suspends the so-called one-year-permitting statute so you're in an endless sea. In the City of Los Angeles, 4 or 5 years is not at all unusual.

Third, if you're lucky and the local staff recommends your project for approval, you get to pay mitigation measures for housing, child care, schools, roads, highways, community facilities, and whatever.

Fourth, you must establish state mitigation monitoring for your project. You have to comply with the Air Quality Management Plan, and anything else Sacramento can think of.

Fifth, if you're still around for that part of the story, you get sued by anybody for not doing any of the aforementioned perfectly without impunity. And,

Sixth, if you're able to endure all of that, you get the living heck beat out of you in terms of paying the fees that are necessary at the local level for bureaucratic review of your projects.

The bottom line: This is a system in which the Suez Canal and the Hoover Dam would not have been built. We've got to change our priorities. We've got to look at it in a hard way. We've got to be realistic, so we don't have to gut the Environmental Quality Act. We've got to make it work. (applause)

The last issue, budget reform, I'll save for another day. I believe we have the resources to revive the greatness of this state. All we lack and all we have (and we have the responsibility for it) is the will. We have the leadership here today. Let's do it. Mr. Speaker, ladies and gentlemen of the panel, thank you very much for your patience, your concern, your cooperation. (applause)

SPEAKER BROWN: Victor Weisser is the President and Chief Executive Officer of the California Council on Environmental and Economic Balance (CEEB). Their role is to take development interests and the governmental interests and environmental interests and strike a balance among them. Vic.

MR. VICTOR WEISSER: Thank you, Mr. Speaker, for that warm introduction and for convening this Summit. I'm going to talk about productivity today. Economic productivity and regulatory productivity.

Let's start by being candid. For a moment, think of California as a large company. To be blunt, our company has been on a path leading to bankruptcy. Whether you believe we are just going through our part of the national recession or whether you believe our regulatory machinery has devolved into a job killer, any way you cut it, we're in trouble. Like many troubled companies, we fail to invest wisely in our future. And, we have allowed regulatory goals to be pre-empted by process. For both our economic and regulatory goals, we have lost focus on the key to success: productivity. A company verging on bankruptcy can enter Chapter 11. Chapter 11 enables the Board of Directors and management to propose a workout plan. A workout plan addresses the problems afflicting the organization and acts as a road map, so piecemeal or conflicting actions are avoided as the plan is implemented over time. California needs just such a work plan to take advantage of our great fundamental strengths. Governmental leaders, like a company's board and management, have a responsibility to the shareholders (the people) to come to an agreement on a workout plan.

Fortunately, we don't have to devise our plan from scratch. If 1992 was anything, it was the Year of the Study. And the similarity of these efforts is striking. They each stress economic productivity and regulatory productivity. These common themes are the best starting points on the road to agreement. Our workout plan should include:

1. Thoughtfully-crafted tax incentives to stimulate private capital investment and job creation.

2. The commitment to increase investment and plan public infrastructure, to improve long-term productivity and quality of life.

3. A budget plan which includes long-term fiscal restructuring and avoids disincentives to economic growth.

4. Regulatory reform to achieve more efficiency and certainty without lessening environmental standards.

We believe that efficient infrastructure investment, both public and private, is the most effective way public policy can spur sustainable increases in productivity -- productivity which will allow Californians to compete and capture larger market shares. And productivity which will lead to new jobs, higher wages, enhanced profits, and enlarged tax revenues to help us sustain a decent quality of life. CEEB has been joined by others in advocating:

First, enactment of a state strategy for growth.

Second, establishment of a state infrastructure bank for public facilities, housing, and resource protection, funded by state bonds.

Third, allowing local infrastructure bonds to be passed by a majority of voters, as state bonds are, instead of the current two-thirds requirement.

Fourth, requiring integrated capital outlay plans to ensure proceeds are spent wisely.

Our growth strategy must provide greater certainty, both for economic development and environmental protection. A uniquely diverse group of business, labor, environmentalists, housing advocates, ethnic leaders, and others have been collaborating on state growth strategies, with certainty as their keystone. Building on last year's legislative efforts, this coalition for economic and environmental recovery looks for continued leadership from you, Mr. Speaker, and from other legislators active in this arena, as well as the administration, as we seek reform in 1993.

There are other, necessary ingredients in this part of our workout plan, but time mandates that I move on to regulatory productivity. Our work plan should cut regulatory costs without sacrificing environmental quality. We need to identify our environmental priorities rationally and get away from the crisis-of-the-moment mode of setting goals. Our reorganized system should scientifically assess the comparative risks that we face so we focus on the worst risks first. When the worst risks are identified and our goals are set, we should use the lowest cost approaches first before the more expensive. Sometimes, federal, state, and local goals should differ, but there is a price to pay for straying from consistency. It makes sense to require justification of benefits versus costs before adopting goals that differ. And we should also be looking at cumulative regulatory costs. We should seek to employ the marketplace to achieve our goals, using performance standards instead of traditional command and control. Incentive-style regulation stimulates technological innovation and can get us to our goals at less cost, if it is properly structured and not mired in red tape. Market-like approaches can also help the public make responsible choices affecting our environment.

We should look at reforming transportation pricing to send more accurate signals on the cost of auto congestion and pollution. This could help redress programs that impose costs on employers for things they can't control. Air districts can fine companies if workers don't meet ridesharing goals. Having goals and reasonable plans can be useful, but fining employers who neither have nor desire the authority to dictate behavior is unfair. Jurisdictions have different ridesharing rules requiring multiple plans, even at the same worksite. We've got to be able to do better than that. Other rules force new development to assume costs for problems that are historic or regionwide, not due to the particular development. That's simply inequitable. As you have heard, we need to dramatically improve our environmental permitting process. Over time, this system has grown convoluted and myopic. While well-intentioned, it makes both duplicative and conflicting demands. Let's take a no-nonsense approach to this red-tape horror show, through streamlining and enforceable deadlines, and lets do it this year, and make sure that we can tell people that California means business.

What about CEQUA? Does it make sense to mandate pollution control equipment and then have CEQUA delay implementation so that statutory deadlines are missed? Most agree that the CEQUA process needs to be reformed. Not eliminated, not undermined, but tuned up so that it's intended goal is achieved more efficiently and resources aren't wasted.

We also need to look at how regulators do their jobs. Total quality management, customer service training, performance-based budget reviews, and other proven management tools are available. Shouldn't some of these be implemented before again increasing fees? From standardizing reporting requirements to streamlining site clean-ups, there are dozens of ways to reform our regulatory system. Each can be a life-line to employers, small and large alike, and to the jobs they create.

But there are really only two ways that we can go about devising our Chapter 11 workout plan. First, is the traditional model. The I win-you-lose approach to public policy formulation. This may work for you, if you have more votes than they do, and you are sure you'll have more tomorrow. But who among us can be so sure? Our situation demands the collaborative model. We must realize that we are stuck in this mess together and admit that no single side is strong enough or wise enough to get us out without the cooperation of others. To pursue our individual visions, we must collaborate with many. We must agree on a workout plan. Thank you very much for your time. (applause)

SPEAKER BROWN: Thank you very much. I have been reminded by many of you that one main portion of California's infrastructure is the tourist industry. Let me ask Joe Shapiro, the Executive Vice President of Disney Companies, to address tourism. Mr. Shapiro.

MR. JOE SHAPIRO: I would like to speak about tourism in two categories. First, why should we care about it? And second, assuming we do care about it, how do we enable it?

The "why" is pretty easy. Tourism is the second largest job creator in the State of California. It's the single largest export from the State of California. The jobs created run a wide range. Many mid-pay, many high-pay, but there is something very important about this industry in terms of job creation that I would like to emphasize for you. The tourism industry creates a very high number of entry-level jobs. Assuming we can get our collective act together, and make the appropriate educational investments that have been emphasized by many other speakers in the last few days, we have to give those people, when they leave school, their first job. I believe the Speaker remarked earlier today, that the current reality is, that a person entering the work force is not likely to spend his or her entire career in the same job, as was once the case. This enhances the importance of entry-level jobs and tourism is a great supplier of those jobs.

Now, I happen to work for the Walt Disney Company, which is a large company. Mr. Garcia is with Warner's, and they are very active in tourism, and they are a large company. But, please understand, that the largest number of jobs in the tourism business is created by small employers. Please understand further, that, particularly if we enhance our transportation systems in the manner addressed by two of the last three speakers, many of these jobs will be very accessible to the terribly economically-depressed inner-city areas. Using Los Angeles for an example, on the drawing board today as we sit here is a configuration of rail developments that would enable people who hopefully have just finished getting reasonable educations in South Central and East Los Angeles to take mass transit to jobs in Anaheim where our company employs a lot of people. That's a good thing. It's environmentally sound to get your workers to work with mass transit, but, if you don't have a job in the first place, you don't get to confront the environmental issue.

By the way, there's a perception that tourism is environmentally clean. By and large, that's accurate, but there is an issue that ties back into mass transit. Multi-point emissions are a real problem. Fortunately, tourists generally do not drive cars alone. In our experience, we average 3.5 passengers per vehicle visiting our location. However, that is not universally the case throughout the state, and that puts further emphasis on efficient transportation. Tourism means moving people around. I agree with prior speakers who said we ought to lay off the single-point stuff and get to the multi-point emissions, because that's the real problem. As we try to develop tourism, let's keep an eye on that.

Now, assuming that I haven't put you all to sleep and that anybody out there still cares about tourism, how do we accomplish this? We've got a good head start. Economists talk about comparative advantages a great deal, but they also talk about absolute advantage. This state has an absolute advantage in tourism. We have climate; we have lakes; we have the seashore; we have mountains; we have forests -- all kinds of spectacular places, where big and small employers can thrive in the tourism business. That is an absolute advantage. There's nothing comparative about it. That's easy. That's a given.

Among the other things that need to be done to help tourism flourish in this state, investment in education is critical. I'm sorry to be redundant with the rest of the speakers, but we can't say it often enough until we do it. It's absolutely critical to educate our children.

Infrastructure investment. I've already alluded to this. Public sector infrastructure investment enables private sector capital investment which creates jobs and, therefore, wealth. That's the sequence. The State Treasurer has spoken about it, other people have spoken about it; let's go do it. And by the way, step one: If your local congressman doesn't believe in fully funding ISTEA, please call him or her. That's something that should be done for the benefit of the entire state, and not just tourism.

Other reforms in the regulatory system, and the development system such as those referred to by Mr. Garcia and others, are critical to this industry. Much has been said by representatives of small business about Workers' Compensation. Let me tell you, as a representative of a large business, Workers' Comp. is a real problem for us too. In those respects, we're no different from any other business. What makes us different is the contribution we can make, because of our size, in terms of job creation and exports, and how well we can dovetail with infrastructure investment that benefits other sectors of the economy.

Tourism's need are, by and large, counter-cyclical to other transportation needs. Take Disneyland, for example. Disneyland is very crowded on Saturday. A lot of people drive to Disneyland on Saturday. Relatively few people drive to Disneyland Monday through Friday. The same thing would be true of mass transit. One gets to amortize one's investment in transportation infrastructure over a seven-day week, instead of a five-day week, when tourism is part of the economic package. It blends very nicely with manufacturing and other critical segments of the economy.

Mr. Speaker, Members of the Legislature, and Constitutional Officers who are here, I commend you for coming together and having this Summit. I am very optimistic that this is not going to be just another study, but that this is a real watershed, and that a plan of action will evolve from this meeting. The state needs a plan. The Walt Disney company needs a plan. In order to manage the microeconomics of our firm, we have to have a plan. In fact, we have a five-year plan rolling with one-year plans. I see Gary Hunt from the Irvine Company down there. I bet they have the same process, or something very similar. The State of California has a macro-economy. It needs a plan. I urge you to adopt one, implement it, and while you are doing it, please keep tourism in mind. But for the benefit of all of us, the adoption and speedy implementation of a plan will send a message that California is indeed open for business.

Thank you very much for taking the time to listen to me.

SPEAKER BROWN: There was an interesting story that appeared in one of the local newspapers, and we sought out the person who was the subject matter of that story for this Summit.

Several years ago, he relocated his California business to Mexico, and within the last year, he re-relocated his Mexico business to California.

I thought it might be instructive to those of us who are public policymakers to hear what factors drove him out and what factors prompted his return. Let me ask the gentleman to my immediate left, Mr. Agramonte, to share his views for a few moments.

MR. ADOLFO AGRAMONTE: Thank you, Mr. Speaker. I'm glad to be here on the positive side of the job retention issue.

In 1988, we were forced to leave the State of California, due to the restraints of a certain agency, namely the AQMD, plus the environmental regulations in Southern California and the cost of Workers' Compensation. We were forced to leave the state with no other options. We tried to find other options that could have alleviated our problems, but we had no success. It seemed at the time that our company was at war with the environmental department, and so we left the State of California.

We experimented in Mexico for two and a half years. Things didn't go very well. We found different issues that affected our company, our quality, and our efficiency. We had problems with the cost of doing business in Mexico -- transportation lead time, which incurred more inventories (and the costs of carrying inventory are excessively high); damages, as a result of transportation and handling products; product quality suffered; and our penetration into the market was a problem. It was a real problem there. Finally, we had no resort but to come back to California.

We didn't know where to start. We had very few options -- either close that department, go out of business, or find a solution. Luckily enough, we were able to find people who would listen to us. The Trade and Commerce Department, the Southern California Edison Company, which we really appreciate for their cooperation, and the AQMD and our company joined forces to solve our problems. We pretty much wanted to be relocated in California. This is our state. This is where we want to be. We feel that the economy in California should be revitalized, and we can be part of that, and we want to be part of that. So successfully enough, we were able to find out about new technologies which didn't exist then -- three, four years ago -- and through the Southern California Technical Laboratory, we were able to test these products. We found out that they were acceptable for the quality standards of our market. And, finding more about the flexibility of the AQMD, we were able, with their help, to restructure their permits. In the future, through the new technology, the new chemicals, and the restructuring of our permits, this will allow us to grow three times bigger than what we were in 1988, before we left.

So far, this is what we see in our company. Just as another note here ... we feel like there are sources and there are good resources. I feel, through the joint efforts and joining forces with other agencies, there are solutions. And my advice to a lot of the companies in southern California now, or elsewhere in the State of California who are planning to leave the state, would be to seek out those resources that are available and the flexibility that exists now through some of the agencies before they make a decision. I feel that California has a tremendous resource, tremendous potential, and a tremendous market. Here is where we belong. Thank you.

SPEAKER BROWN: Thank you very much.

The City Manager of Oakland, Mr. Henry Gardner.

MR. HENRY GARDNER: Thank you, Mr. Speaker.

I come from a local government perspective on the issue of infrastructure. Oakland is a relatively old city by California standards, with an aging infrastructure. Most of our sewers, our streets, our bridges, our over-passes are at least 70 years old. Some of them are 100 years old. Most of our public buildings are at least 50 years old. The current economic stagnation and decline in the state did not just begin in Oakland. It didn't begin with the last recession. It began in the 1950s. And, it has been a constant challenge for our community to balance the needs of public education, of public infrastructure, of programs dealing with youth, and yet, I think, we have done a fairly respectable job of that.

At the time Proposition 13 was enacted, we made massive reductions in city services. I remember a story where we proposed to cut library services, and patrons of the library said, "That doesn't make any sense; we should be trying to teach children to read and improve literacy in our community. How can you do that?" And we all agreed that didn't make sense. And then we proposed to cut recreation centers and people said, "Well, how can you do that? We ought to have programs that respond to youth services." And we said, "Yes, that makes sense." We said, "Well, let's cut the museum." And they said, "Well, this is the crown jewel of our cultural services." And we said, "Yes." And then we said, "Well, let's cut sewers." And nobody spoke up. As a result of that, Oakland established what is known as the Friends of the Sewer Society, because we felt a compelling need to put sewers up there on the same level with other needs of our community. They cannot be neglected.

We went from a 30-year cycle of repaving our streets to a 200-year cycle. We told people that their streets were paved at the time of the Civil War. It would be another 100 years before we came by their homes again. Obviously, that doesn't work. What do we do about it? One of my colleagues said, "Well, the maxim is that if you can't see it, you can't feel it, and you can't smell it, you can ignore it." And that's what cities have done to make it over these last 25-30 years. We can do nothing and let it all fall apart. I would not advise that. We could go on a pay-as-you-go basis, but that doesn't work, because some of our projects would take 200 years to do. What I think we need is to develop a comprehensive strategy of reinvesting in our infrastructure. And, I think we do that through long-term debt financing, debt financing that is appropriate to our needs and that addresses the communities' ability to pay.

Kathleen Brown is absolutely right. The two-thirds voter requirement for general obligation bonds should be done away with. It's the biggest hindrance for cities to deal with their infrastructure needs. And if you hear nothing else on this subject for the local government perspective, I would urge you to take that issue on. There is no reason why 34 percent of the people should deny 66 percent of the people the will to move forward.

Finally, if I might, we need to tell the truth. We need to be frank and honest and forthright with our constituents. We need to tell people that some things do cost money. And it is important to reach down deep and pay for those things that matter. We need to do a more effective job of linking infrastructure with economic development. We need to be persuasive, and we need to re-establish our credibility with the community. And lastly, we need to expand the network of the Friends of the Sewer Society. Thank you.

SPEAKER BROWN: From the ranks of organized labor, seated right next to Mr. Gardner, is Mr. Jim Green.

MR. JIM GREEN: Thank you very much, Mr. Speaker, and Johan Klehs and John Burton, as well, for inviting me here.

I feel sort of lonely; I'm the only building tradesman on any of the panels. I've heard a lot of things I liked. I heard Mr. Hayward talk about the need for vocational training. Some things I haven't heard. I only heard the word "apprenticeship" used once in two days, and that was by Mickey Kantor yesterday.

The Carpenters Union -- and I can only give you the figures for what we do, but I know the rest of organized labor does it through their collective bargaining agreements -- our employers contribute $7 million a year for apprenticeship training. Five cents an hour additional (that's 30 million man hours) goes for journeyman upgrading, so the young person who comes into the Carpenters Union through the apprenticeship program can be retrained to keep up with technology. I don't believe that business is doing the training. There are some exceptions; there have always been some of those. The apprenticeship has been ignored. I think we should take it to the inner-cities.

I've already talked to Mayor Elihu Harris, and I will have our apprenticeship director contact Angela Blackwell next week and we're going to start on a program of pre-apprenticeships in the Oakland schools and make it a model.

If we don't train minority inner city youths, we cannot have journeymen, we cannot have minority contractors. We've got to start there, and I think a pre-apprenticeship program is the way to start. As a quick start, perhaps, not as the solution. But, I think that the patient is very ill and while we sit around and talk about it, the patient may die. So, we're going to start something next week, assuming Ms. Blackwell is available, and start working on that immediately.

We also need some people appointed to the California Apprenticeship Council who employ apprentices, who know what an apprentice is, and aren't just there to bash the apprenticeship programs in the labor unions when they don't hire apprentices, don't train apprentices, and I doubt they know what apprentices are.

I think we have enough attorneys. I think we have enough CPAs. And I've found out at this conference, I believe, that we have enough economists to go around. We need workers. I look at this table in front of me and I see Johan Klehs, whose father was a carpenter. That you can be proud of. There's nothing to be ashamed of in working with your hands. It's an honest way to make a living, and I know a lot of people who go to college and make dishonest livings.

I just want to tell you that the unions are prepared to step up to the plate. I think we already have. Our pension funds are pooled with other pension funds in northern California, and we have, in the past ten years, put out over $3 billion into real estate loans, creating 77 million man-hours of work for workers in northern California. The average around the country, in Taft-Hartley plans, is 4 percent; ours is 35 percent. I like that feeling. You know that 35 percent was in real estate when the stock market went down 82 points.

I challenge the other funds. In fact, I ask the legislators to consider legislation that mandates diversity in investment. I think PERS and STRS are both shining examples of what not to do. I think the workers in California who are participants in PERS would be shocked to know they have more money in Japan than they have in California. PERS promised to put out $475 million by July. They said that in the first part of '91. They didn't say which year, however. And I challenge them to invest in California.

I believe that we can put together a consortium of public and private sector funds, if we make some regulatory changes, and pool those funds to build infrastructure. We could build schools; we could build homes with pension fund monies. It will require some changes in Section 302 of

Taft-Hartley and some other minor changes, but I believe it can be done. So I am proposing to you we put together a consortium with our pension fund moneys to rebuild California. One out of every three jobs lost in California was construction related. One hundred sixty-six thousand construction-related jobs were lost. I believe we can do it. I know we can do it. We've proved we can do it with our pension fund monies.

Building tradesmen and trade unions are environmentalists. Walter Ruther once said, "What good is another week's paid vacation when you haven't got a lake to go to and you can't breathe the air." I sometimes believe, however, that environmentalists are, if you took the cloak or the white sheet off of them, no-growth-ers underneath. I believe that I agree with the woman from the forest products industry that our timber policy is deplorable. It's so bad that we can't even log dead and diseased trees to preserve our forests. And those sorts of things promote forest fires that burn down the very forests that we're trying to protect. I believe it's crazy. A log now standing in the forest is costing as much as the finished product that is now in the lumber yards. The stump price -- see, you don't have to be an economist to figure out if the stump price is the same as the finished product, what's that log going to cost when it gets to market? Lumber costs have gone up $7,000 on a house in California in the last two years. So what are we going to do? We'll probably build metal stud houses, and we'll get the metal studs from Japan. That makes a hell of a lot of sense to me.

The other thing I can't understand is why we have to go through environmental impact studies to rebuild the Cypress Freeway, while we have gridlock at the maze pumping pollutants into the air.

In closing, I would like for people to look at what has been done by our State Contractors' License Board when they decided that Arizona contractors' licenses are now good in California. I don't understand that either. I don't understand why we have Arizona workers here building houses, living in their cars, living in refrigerator boxes, taking showers from garden hoses. I don't understand that. This is California. This is not the '30s. It's almost like the dust bowl. Also, those people, if they're getting paychecks, are being paid in Arizona and paying no California state tax. Most of them are getting cash pay and no Workmens' Comp paid on them. I don't understand that, either. I don't understand why we can't put together a task force to address the underground economy. My daughter's a dental hygienist and half the dentists pay cash pay. It's not solely in the construction industry. So, I believe that if you put people on and do the cash pay, maybe a bounty system on cash pay, you might find that there's enough money out there maybe to train some inner-city kids and put them out and give them decent jobs. Thank you.

SPEAKER BROWN: On the regulatory issues, I'm going to ask Mr. William Falik, Mr. Bruce Nestandé and Mr. Ward Connerly to share their thoughts. Let's start with Mr. Falik.

MR. WILLIAM FALIK: Thank you, Mr. Speaker. We're developing a new city in Sutter County immediately next to the Sacramento Metropolitan Airport. I think what Mr. Garcia said is legend with regard to the problems we've had. Imagine trying to develop Irvine in 1991 and 1992. We have 25,000 acres. We have probably the most environmentally-advanced plan in the State of California. We've had four years of comprehensive planning, and now we await June 8th anxiously, because that's when the people of Pleasant Grove will vote to determine whether or not we will form a new city. The only additional impediment that hasn't been talked about, and I'm not going to talk about it in detail, is what is sacrosanct in the California Constitution -- that is the right of the local initiative and referendum process. That adds to the developer's nightmare, because you can go through two or three even after you successfully win your environmental litigation and you have a model EIR.

How are we going to generate jobs? That's really what I wanted to mention. We have entered into a strategic alliance with Pacific Bell to have the first fully fiber optic new community in the State of California. All 25,000 acres right now are without any infrastructure at all. We probably will need a billion dollars in order to go forward. Part of that step is fiber optic telecommunications. Mr. Ginn said yesterday, and I agree with him, that telecommunications is the competitive edge for California. We will generate 96,000 new jobs, real jobs, in Sutter County by using telecommunications, intelligent vehicle highway systems, and planning an entire new universe for electric vehicles in our community. That's what we're doing. We're doing that in conjunction with the State of California, the University of California, Davis, and Mr. Mertes at the Community College System. We've just received from ISTEA a $1.75 million grant for smart vehicles.

Finally, it is interesting that Mr. Barrum from Apple Computers said yesterday, "Leadership is the courage to implement a vision." I was watching it in my hotel room and I realized that if we had fiber optics right now, the million dollars that we all spent to get here and the several million dollars of time that we all spent being here could have been absorbed differently. We could have been in our offices. Certainly we would have missed some of the camaraderie, which has been great, but we could have been in our offices and had fiber optic telecommunication video conferences. Perhaps in five years this will become a reality. This is what is the base of our community. We're starting with a tabula rasa of development. We're going to do a whole lot of new infrastructure, and we'll be right near the State Capital as a demonstration project to bring thousands of new jobs to California.

MR. BRUCE NESTANDÉ: Thank you, Mr. Speaker. Let me share an observation on the whole infrastructure issue as a person who has had a career that began in a governor's office, served as a state legislator, a county supervisor, served on the California Commission on Transportation, served on the South Coast Air Quality Management District Board, and served on SCAG. I've often mentioned that if I'd known all the laws I was going to vote on, I wouldn't have voted upon them, now that I see what we've created.

So let me share some concerns that are real life experiences, having served on those bodies, and where I see the process right now. Obviously dollars are a major part of the issue. The per capita dollars spent on infrastructure in the past 20 years shrinks every single year to the point where it is hard to get infrastructure dollars to buy anything. But, beyond that dollar issue is the process issue. Without question you have clean air bodies; you have congested management plans; you have transportation bodies; you have regional bodies. You have each of them overseeing and making decisions on the same issues as you go through the process. And then you have institutional vagaries so, therefore, bodies aren't quite sure what their responsibilities are and, obviously, a body will expand its jurisdiction.

So then you have turf fights between institutions. As a result, it's called delay. Delays result in one of two things. Either the cost of the project goes up enormously to the point where, for example, the Century Freeway 20 years ago was going to cost $200 million dollars and it ended up costing $2 billion. Or secondly, you just don't get it done. It just stops, because it runs out of money.

Now what are some thoughts as to an action plan? Number one is an issue of dollars which has been mentioned before -- fully-fund ISTEA. Secondly, the United States Congress for years now has refused to take off budget $10 billion, which is sitting back in Washington, D.C., as part of the trust fund for highways and transit systems. Part of the agenda ought to be to take that off budget so a billion dollars would flow into California. Third, we ought to pass the second $1 billion rail bond issue in the next election cycle. Fourth, there is a tremendous opportunity this year for the development of a comprehensive state-wide growth management plan as proposed by the Governor, and as proposed by the Speaker. In that plan, all of the issues you've heard today regarding process duplication can be dealt with and ought to be dealt with. And, finally, a high-speed train study has been initiated by Assemblyman Costa and others to fund a transportation analysis concerning high-speed rail here in California, which would improve our rail system, but the Legislature has not appropriated the dollars to fund that process. And that ought to occur.

Thank you very much, Mr. Speaker.

SPEAKER BROWN: Thank you. Mr. Connerly.

MR. WARD CONNERLY: Thank you, Mr. Speaker. I, too, want to join the chorus of those who have applauded you for this Summit. There are a couple of specific things I think that I can add without repeating what has already been said.

The most important part of our whole economic infrastructure is entrepreneurs, and right now they are feeling pretty battered -- I among them. I think that one of the things that the Legislature can do in the next 30 days is to help restore confidence of those of us who have to go out everyday and toil in the vineyards of this economy. If you can pass -- within the next 60 days, let's say -- a bill, or just introduce it, to combine the Governor's proposals for reforming CEQA with comprehensive local land use planning and the proposals for state comprehensive planning, if you can just embody those in one bill, I think that will help to provide some restoration of confidence.

The main problem that we face right now in turning California around is confidence. People can't go out and invest if they don't feel secure, and right now there's a great feeling that California is just slipping down to the ground. I think that if you can help to talk some of that happy talk to make us all feel good about this state, that's the first thing to turn around investing in people. We can't invest in people when we're a heartbeat away from the poor house ourselves, and when we feel there is no hope for the future. So I think that we need to see the Legislature hit the ground running. Mr. Speaker, if you could just say to every policy committee, "I want you to bring me back, in 30 days, one bill to repeal," I think that starts us down the road to turning California around.

SPEAKER BROWN: The Sierra Club and the Irvine Company have joined together in a mutual effort. Mr. White from the Sierra Club is here, as is Mr. Hunt from the Irvine Company. Mr. Hunt, you may start.

MR. GARY HUNT: Mr. Speaker, thank you. I want to join those who have also indicated to you their appreciation for this forum.

I'd like to begin, first, by saying that it is most appropriate that Ms. Brown was one of the lead-off speakers in this panel's deliberations, because the history of this state was greatly enhanced by her father's contribution to the development of infrastructure. And, as I have said many times, we have for the past 30 years been living off his leadership and his vision. I want to thank him and her for that effort.

Today, Mr. Speaker, we're in a position where we find ourselves having run out of that infrastructure. I think that, today, we also find ourselves in an environment where we face two very significant problems that I'd like to speak to.

The first one is that of the adequacy of capital. We all have discussed today the short-term and long-term fixes that California needs. Speaking from my industry's perspective -- the real estate, community development perspective -- one of the greatest crises we face (and it was discussed briefly yesterday, Mr. Speaker) is the lack of capital. Capital availability is a federal issue, and, to the extent that you, the Governor, other Members of the Legislature, and the Treasurer can work with the federal administration to relieve the regulatory constraints on the availability of capital, certainly for our industry, that will immediately put upwards of 160,000 to 200,000 people to work in building houses -- houses that are very badly needed in the State of California. That represents approximately 25 to 33 percent of the unemployed individuals. That is the short-term fix, and it won't cost the federal government a penny.

The second thing I'd like to speak on -- and I'm glad you joined me up with Mr. White, with whom we have worked very closely on a variety of issues under your leadership, as you know -- is the regulatory process. I think it's fair to say, and I'd like to echo Mr. Garcia's comments by expanding them, if the pilgrims were required to file an EIR under CEQA and NEPA, nobody would be here today. I think that the San Francisco Golden Gate Bridge would not have been built today. And I say that, not because we are opposed to or believe that the environmental regulatory process should be undone. We believe that what was the original, well intended desires of the environmental regulatory process, which was to bring a mitigation analysis to growth and to development, has in fact resulted in not true mitigation, but rather in a mechanism to stop growth. And, I think, to the extent that balance can be brought back to the system, through the good legislators sitting out here in front, and through your leadership, Mr. Speaker, in cooperation with the Sierra Club and the other members of the environmental community, I think that will go a long way toward allowing us to get California's infrastructure back on the road to development, and get development back on the road to creating jobs and developing homes for all of us who live, work, and play in California. Thank you Mr. Speaker.

SPEAKER BROWN: Thank you very much, Mr. Hunt. Mr. White of the Sierra Club.

MR. V. JOHN WHITE: Thank you, Mr. Speaker.

It is with some irony that I find myself speaking on the question of infrastructure. I think that's partly because we need to have a broader concept of what infrastructure is. We've seen, throughout this last decade, the consequences of unplanned growth and unplanned development. I think one of the consequences of that is litigation. There is a great deal of dissatisfaction at the local level about the way the planning process works. I think it is important to stress that certainty cuts both ways. It's important that there be certainty of resource protection, that there be certainty of air quality goals being attained, and that there be certainty of energy efficiency, all being achieved. I think we've come to believe that there needs to be a recognition of the linkages. We can't reduce the single occupancy vehicle dependence without increasing density of the housing market -- without linking transportation and housing together. We also need to recognize the role of pricing, as Vic Weisser mentioned. We need to recognize that transportation doesn't pay its full cost when people are driving their automobiles ad infinitum. I think, at the same time, there's been some recognition that sustainability, not just for the state, but for the planet, is something we have to begin groping for and trying to get to. That means that the goals of social equity, that the goals of economic development, and that the goals of environmental preservation need to be looked at together.

I think one of the reasons we have such a great deal of emphasis on the permitting process and the regulatory process here today isn't because of a lack of consensus about the need to protect the environment, among the public at least. I think there is, in fact, an extent to which the regulatory process is a surrogate for not dealing with what we really need to deal with, which is certainty that we're going to clean up the air; that we're going to protect open space; that we're going to protect agriculture land. And in the process we have to recognize, I think, the need for certainty that the state's housing and infrastructure needs must also be filled.

So we're trying, and it's a struggle, to find common ground. But I think that's what we need to try to do, and I think that through the process, Mr. Speaker, that you helped inaugurate with the growth management issue, the opportunity for the environmental community to be not just on the menu, but at the table, that we can in fact try to work together. I must tell you, though, that the certainty issue needs to come for us as well. There needs to be recognition that our tourism industry, which Mr. Shapiro spoke about, isn't going to be a reality long term unless we preserve and protect California's environment. Our children need to be assured of that. And at the same time, we need to recognize that solving other people's problems -- the employment problems that were spoken to earlier -- is part of the solution.

So we're going to keep working on trying to solve these problems and trying to make a contribution, because we think the environment is such a vital part of infrastructure that collaboration and negotiation on some shared goals is possible. It's very difficult. I don't know how we'll do, but we appreciate the opportunity to try.

SPEAKER BROWN: Thank you very much, Mr. White. Mr. Hank Wedaa, the Mayor of Yorba Linda.

MR. HANK WEDAA: Mr. Speaker, thank you.

In responding to Mr. Connerly's suggestion, I have a bill that you might like to consider repealing. Last year, the Legislature passed AB 1572, relative to air pollution. It raises the pollution fines for businesses violating air quality from between $1 to $25,000 a day to between $10 and $50,000 a day. Is that a business friendly law? I don't think so. I think it helps people go away from California. They don't even want to come here if this can happen to them. Please repeal it.

SPEAKER BROWN: Mr. Mayor, during the break, I'm going to find out whose bill that is. It was not mine.

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SPEAKER BROWN: Kindly find your seats, please, so that we may commence the very last of our panels for the day. We began these proceedings with a discussion of the national economy and its effect on California. We then moved directly to the California state economy. For the last six or seven hours, we've broken things down to the very, very special level, with actual examples of work experiences, business investment opportunities. We've heard from those who represent the world of labor, those who represent agencies of local government, and those from the private sector.

Now we will turn to what I have always perceived as California's greatest strength. California has always been on the cutting edge innovation, new technologies, new methods of doing business, new ideas for new products -- all of which have been derivative of the superior brain power, intellect, creativity, and frontier spirit that has characterized this state for many years.

This final panel is devoted to just that kind of subject matter and issues. To set the tone for this next panel, I've asked Professor William Ouchi of the UCLA Graduate School of Management to present his views on what can happen in California when extraordinary new management styles and organizational processes are employed. Dr. Ouchi.

DR. WILLIAM OUCHI: Thank you, Mr. Speaker. I am not an economist. I study people, and I study the way people work together in large organizations. I like to observe that competition has never been an individual sport; it's always been a team sport. I'd like to give you just two examples.

Number one: In Japan in 1976, the semiconductor industry was far behind that of the United States. They accounted for less than five percent of the world market. No one ever thought that their supposedly slow team approach to doing things could ever succeed in an industry that moves so quickly. What they did, with the encouragement and the support of government at the national and local levels, was to undertake a series -- several score -- of joint projects, in which companies who ordinarily competed against one another, joined to create new process technologies, which all of them would ultimately use to compete against one another, but which no one of them could justify developing, investing in quickly enough to be competitive in world markets.

Example number two: The United States Advanced Battery Consortium, a joint venture of General Motors, Ford, and the Chrysler Corporation, organized under the support of the Department of Energy. A Consortium not initiated by government, but initiated by industry. Just as each of these successful joint technology projects in Japan was initiated, not by government, but by industry. But, in both cases, met by a sympathetic listening on the part of government, and resulting in the joint development, in this case, of new battery technology, without which the electric vehicles of the future can never be a reality. It can be done here; it is not ordinarily done here. It is now the standard moled in the European community, as well as in Japan.

I'd like to offer a brief perspective on how these events come to be and how it is we ought to look at them. As I've listened to these proceedings for the past day and a half, it has become apparent to me that many of us are inclined to think that somebody must have been doing something wrong for our state to have arrived in the economic straits in which we find ourselves. I'd like to offer a different point of view, and that is that since World War II we have enjoyed an industrial monopoly, quite by accident, because the industrial capacity of Germany, of France, of Italy, of Spain, of the U.K., and of Japan had been destroyed during that war. Thus, without competition, our companies grew and flourished, and at the same time, as they grew, they learned a superstitious lesson. The most deeply learned of these lessons was that competition is an individual sport, that our company doesn't need anything from anyone else.

Quite often, the entrepreneurs of Silicon Valley have credited themselves, through their hard work, their diligence, their willingness to take risk, with having created new jobs and new industry. It is only in retrospect that we see that while they are indeed hard workers, and they were entrepreneurs and risk takers, and we should and do honor their achievements, that like the forty-niners, who developed the economy of this state at an earlier time, although they mined the gold, they didn't put it there. It was a joint effort between the people of California, the institutions of higher education, and the workers, the entrepreneurs and the scientists, who successfully mined the intellectual gold that had been created through collaborative investment. That was the pact of Abraham Lincoln when he established the Morel Act, created the land grant institutions, and in the following twenty years quintupled the number of engineers being trained in this country.

The first of the land grant institutions dedicated to the agricultural arts, of course, was the University of Massachusetts. The second, you may not know, was MIT. Its time, I think, that we think about renewing that new technology pact which will move us to the next twenty years. Its clear also that when we have a poor structure, and when we have a system of laws that does not well suit the conditions that we face, the people who must work within that system are frequently ... they act like fish in a bowl. We're not aware that the water in which we swim is the problem, and, instead, the difficulties which we each face become personalized. The accusations ad hominem, and business is inclined to blame lawyers, lawyers to blame government, government to blame whomever they choose. But, of course, it is not ad hominem, it is rather systemic and, thus, one final observation.

In the study of business organizations, it has always been clear that the single most important feature of a company is its size. Just as any small organism cannot grow to a very large size without changing its structure substantially, so it is with all organizations. We may be talking about the Los Angeles Unified School District, which has grown to a size which now requires the kind of decentralization that L.E.A.R.N. advocates; that others describe. Or, we might be talking about a behemoth company, which a visitor from Russia would say to us, is far too large for a single person to understand; thus, far too large to be effectively governed. Or, it might be a state of 31 million people, operating with an apparatus which causes the people of that state to have to go on bended knee and explain, or attempt to explain, the great diversity of their needs from north to south, from small towns which have no inner-city, let alone any inner-city minorities, to explain the diversity of those needs to a group of decision makers who reside 2,500 miles away. Just as difficult for the people of a small town in the north of our state, or for the people of Los Angeles to explain to those in Sacramento the welter of issues that have come before you during the past day and a half.

It is, I believe, absolutely essential that we discover some means through which to effectively decentralize the decision making apparatus. The issues that have been unearthed here are overwhelming in their complexity. Although I grant to you the record that you have established in leading our state, a great deal of ability, a great deal of wisdom, I cannot grant to any human being the power of omniniscience. And, thus, it is necessary that we seek a way through the decentralization of the collection of tax revenues, as well as the decentralization of budgeting, accompanied by an appropriate process of oversight, to leave it to each community of our state to address how they best might balance their combined and unique needs for jobs, for clean air, for adequate transportation, and for good schools. I cannot conceive of any central body, no matter how wise, of being able to accomplish this for all 31 million of us. Thank you very much. (applause)

SPEAKER BROWN: Thank you very much. And now the Chairman Emeritus of Lockheed Corporation, an extraordinary private sector representative, who has spent most of his life doing both private sector and public sector work, and is now spearheading the Council on Science and Technology. Mr. Roy Anderson.

MR. ROY ANDERSON: Thank you, Mr. Speaker. I can only say this, as others have: we certainly thank you for sponsoring this Summit.

I want to discuss an ongoing activity that is a little different from what we've been talking about. It has the promise of creating job growth in California, significant job growth. Its called "Project California." It came into being through the California Council on Science and Technology. That Council, which is chaired by Dr. Hullar of U.C. Davis, who is on this panel, is composed of twenty-three distinguished members from academia, industry, labor and government. One of its purposes is to consider ways to harness the very great scientific and technological strengths of California to create and attract new industries and related jobs. After careful study, the Council established "Project California."

Its goal is simply this: to create new industries and jobs by establishing California as a world leader in advanced transportation and related telecommunication systems from people, for goods, for services and information. Dr. Mel Curry, who's the retired chairman and CEO of Hughes Aircraft, and I were asked to co-chair the project. Dr. Don Shields, who is also here today, who is the Executive Director of the California Council on Science and Technology, works with us as project coordinator.

We brought together a select panel of twenty-six distinguished leaders from industry, banking, labor, academia, and government to work on the project. We conducted an exhaustive study of various areas of advanced surface transportation. We looked at the world markets for these advanced transportation systems, the technologies required, the required investments, the state of competition and a projection of job potential. Simultaneously, we looked at California in terms of industry clusters that possess the technologies required and could add value and compete in these various fields of advanced transportation. The home base potential that I am talking about involved interviews with more that 170 individuals in some 90 different organizations, to tap expert knowledge of the market, the technology, the social environmental issues relates to the technologies.

Finally, we zeroed in on six specific areas of advanced surface transportation in which we feel California has an unusual advantage or is presented with favorable market timing and that offer significant business opportunities and related job potential.

First, electric vehicles. Already in California one of the most complete and sophisticated electric vehicle component industries is beginning to form. CalStart, which Mike Peevey is going to talk about next, is a prime example. Similarly, since California will be the lead state in the use of electric vehicles, the entire power-charging infrastructure could be deployed here first.

Second, intelligent vehicle highway systems. Smart cars and smart highways can greatly extend the useful life and throughput of current freeway systems. Electronic and computer technologies are being developed and designed to allow traffic managers to operate the existing facilities more efficiently and safely; to allow drivers to obtain real time information about traffic conditions and alternatives; and to eliminate driver errors, thus increasing throughput and safety.

The third area: advanced telecommunications. It offers alternatives to the traditional movement of people, goods, and information. Rapid transmission of multimedia information will lead to the use of telecommuting, teleshopping, remote medical diagnosis, remote education, and many forms of entertainment. As the applications build, the need for telecommunication devices to support remote imaging, signal compression, voice processing, and multimedia software will expand. It is the specialized manufacturing of electronics, computers, and software that form the core of the advanced telecommunications industry that we believe is really very possible in California.

The fourth area: communications, command, and control -- "C" cubed -- to achieve maximum benefit of mass transit systems. As new public transit vehicles are built, and as old vehicles are refurbished, more sophisticated communication systems, and command and control technologies are being added. These devises include communications, positioning, speed controls, fare collection systems, and passenger information systems. These technologies build on the electronics, computer and system integration expertise of California.

The fifth area is long-term research and development in two areas: Maglev Trains and fuel cell technologies. Technologies being developed and tested in Europe and Japan offer the potential for 300-mile-per-hour powered trains, maglev power.

Four teams have worked in the U.S. to develop conceptual designs, one of those teams is located in California. The U.S. government has examined this technology and is considering committing additional federal dollars to developing operational maglev demonstrations. We need to make sure that California is selected for one of those demonstrations, and that we don't lose it to Rochester as we did the earthquake research center or to Texas as we did the super collider.

The second area of research is fuel cell technologies. That is the ultimate in zero emission power. Research and development in electrochemistry materials and the manufacturing feasibility of fuel cells needs to be accelerated. California has the scientists; it has the engineers and companies necessary to engage in such work. Additionally, we have the federal laboratories here in California which are capable of great work in that area.

We mentioned job potential. What is the job potential? The worldwide market potential in these areas is significant. We have estimated the job potential in each of these areas, for the market share we estimate we could be obtained by California industry, to be somewhere in the area of 200,000 direct jobs by the year 2000, with an added 100,000 tertiary jobs created by the multiplier effect. By the year 2010, 400,000 direct jobs could exist, with 200,00 additional tertiary jobs.

We are currently in the process of convening focus groups to plan and begin carrying out specific action agendas for each of those six specific areas. And, within the next four months, these action agendas will be defined and brought forth. The action agendas will emphasis the need for public and private cooperation, not only to retain jobs in California, but to expand existing industry to spawn new ventures and to attract companies into California, both domestic and foreign. That's the vision and the objective of "Project California." Thank you very much.

SPEAKER BROWN: Michael peevey is a former legislative staffer, who went on to become the Director of the California Council on Environmental and Economic Balance (CEEB). He left CEEB to become President of Southern California Edison Company, and he has now ventured out into the new world of electric vehicles. Michael Peevey.

MR. MICHAEL PEEVEY: Thank you very much, Mr. Speaker. Before I begin my remarks, I want to just pay a compliment to you in the following context. The energy, the commitment, and the leadership you have shown in putting together this Economic Summit, and the efforts last year of John Vasconcellos and ADEPT are the best argument that I personally know of against term limits in the State of California. I see that did not meet with universal applause. (laughter)

SPEAKER BROWN: That's because of John's name. (laughter)

MR.PEEVEY: Any rate, I happen to be the Chairman of CalStart, as Roy Anderson mentioned. CalStart is a public/private partnership that is seeking to develop a world class, advanced transportation industry, based on tapping the immense talents of the state's aerospace and high tech companies. This synergy results, because the demanding requirements of properly designed electric cars and buses, high strength, light weight, high reliability, and complex system integration, match very well with the resident skills of California's aerospace industry. From its inception ten months ago, forty members have joined CalStart. There are now more than $20 million worth of projects under way. The program is well on its way to achieving its goals of creating thousands of high paying jobs over the next few years in California, and making California the center of a new industry in America.

I want to take just a moment to tell you how this all came about. It was through a fellow named Lon Bell, a Ph.D. from CalTech, who, having invented and patented the sensor device on airbags, and then selling his company to TRW, looked around for other things to do. He decided he wanted to be in the electric transportation business; that it was environmentally sound, and was the business of the future. He went knocking on corporate doors in California, and was rebuffed by many of them. He came to Southern California Edison, and we told him that if he could get the South Coast Air Quality Management District (AQMD) interested in this program, then Edison would be there too, and we would both put up money. He convinced the AQMD, and we were right there. And the two of us got this program started a little more than a year ago. At the same time, I might add, and on a parallel path, Congressman Howard Berman and his aide John Slifco, and Richard Katz, and Hersh Rosenthal of the California Legislature, were also moving.

We created this consortium. Its headquartered in a 155,000-square-foot building in Burbank, that was donated to us by Lockheed for $1 a year for the first two years. Its the site of their former Skunkworks. Its an attempt, the first in this state, to bring together all the stake holders, public and private, who have a common interest in an emerging new industry, electric transportation.

To date, members include major aerospace companies like Lockheed and Hughes; all of the state's major electric utilities; small and medium sized technology companies; minority firms; organized labor, through the international Association of Machinists; regulator agencies like the AQMD; universities and national labs, including UC Davis and the Lawrence Livermore Lab; municipalities like the City of Burbank, which put up $110,000 to refurbish the facility; the state, through the State Department of Transportation, the Energy Commission, and the California Department of Commerce and Trade, which put up two million dollars due to legislation that Richard Katz and Hersh Rosenthal authored. Finally, California was able to obtain $4 million from the federal Department of Transportation. With $4 million of federal money, $2 million of state money, and $14 million of private sector money, this is a true private/public partnership. Transit districts are also involved, including BART and the Santa Barbara Metropolitan Transportation District.

We have several programs, which I'll just mention very quickly. A showcase electric vehicle program. We debuted, at the L.A. Auto Show last month. a showcase electric vehicle using California components with twenty different California manufactures. That car will debut on March 4, in Geneva, Switzerland, at the European Auto Show, and then go to Tokyo this summer. A very successful program that is managed by the Amerigone firm.

We have an infrastructure program, involving all five utilities, to make sure that EVs are consumer friendly; that the environment is consumer friendly when they're on the street, so that, if you go a hundred miles, and you need a recharge, there is a place to recharge the vehicle. We have a major infrastructure program headed by the Los Angeles Department of Water and Power, a public agency, but with the other four utilities also involved.

We have an electric bus program, headed by Southern California Edison. And, if you go to Santa Barbara today, you have your choice of several electric buses that run up and down State Street. They are electric, not trolley, buses, but electric battery powered. We have a neighborhood electric vehicle program. These programs are under way; they are working now; and hundreds of people have been employed.

What are some of the things we can learn from all this experience? Good public policy can stimulate new industries, here and elsewhere. As Bill Ouchi said, a hundred plus years ago, we had land grant colleges, and that produced many, many very positive things. Conservative economists, many of them say, "government has no role, no place, it can't do anything constructive." The facts belie that assertion again and again, and CalStart is one of the most recent examples. The public sector can help in nurturing, husbanding, and creating new things in the private sector; the public sector can do that.

The National Energy Act enacted last year provides, for example, in this industry, electric transportation, all kinds of money for R&D and experimental programs. It also provides for up to a $4,000 tax credit on the purchase of an electric vehicle. That is a tremendous incentive to a manufacturer. At the state level, we have similar incentives, although not quite as grand. I would hope, coming out of this conference, that some of you would wish to sponsor some golden carrot legislation that would further stimulate the creation of this industry, and it can be done. A few years ago PG&E and the Natural Resources Defense Council came together with a program to stimulate the manufacture of a new, more cost effective and environmentally sensitive refrigerator, and there was a competition, and the winner got all kinds of incentives. There were two winners for that program. We could do the same thing in the electric transportation industry.

What must be done? Other speakers have talked about the need for education; the need for a world class infrastructure; the need to remove the obstacles to a positive California business climate. We have to do all of these things. But, if we are to provide a foundation for the industries of the future, the engines of economic growth that provide the high paying jobs, and tax revenues necessary to maintain a high quality of life, we have to do more.

We must find new ways to organize ourselves, in order to reinvigorate our entrepreneurial spirit, while maintaining the vigilance necessary to protect our natural resources and our human assets.

Public/private partnerships, such as CalStart, offer one such method, one such pathway that could do the job. To do it, though, means giving up on confrontation in many instances, and replacing confrontation with cooperation and collaboration. And, it means stimulating economic development. Let me just touch on a small but significant problem in that regard. The Legislature passed a statute that says that the utilities of the State of California shall stimulate economic development. Earlier statutes require that Division of Rate Payer Advocates of the Public Utilities Commission -- the DRA -- shall be an independent agency. The DRA says, "We don't think utilities ought to be in the economic development business." And they cast a shadow; they create a cloud over the utilities' ability to do so, because people at the utilities worry, "My God, if we do this, then there will be disallowances and all that." So, despite the efforts at the top of the PUC, by people like Dan Fessler, you can still have a negative consequence; we have to be vigilant.

Finally, please remember that good policy can stimulate the creation of new industries that pay well, and that are environmentally sane, and environmentally attractive. For us at CalStart, we think we can be the headquarters of a new, advanced transportation industry. We hope that you share that vision, all of the people of the State of California, and that those of you in the Legislature would help with a few modest incentives to make it a reality. Thank you very much. (applause)

SPEAKER BROWN: Thank you very much, Mr. Peevey. On this panel, we have individuals from the private sector with experience as innovative entrepreneurs, the creators of jobs that California so desperately needs.

We also have representatives from the public sector side who are engaged in complementary efforts. Just recently, Councilman Alatorre was made the head of the Transportation Consortium that has been put together to produce a system of public transportation in and about Los Angeles reflective of many of the views previously expressed. Council Member Richard Alatorre.

MR. RICHARD ALATORRE: Thank you very much, Mr. Speaker. I have the great privilege of being the first Chairman of the Metropolitan Transit Authority, which is the transportation body that was put together as a result of legislation by Assemblyman Katz, which, hopefully, puts an end to the petty bickering that has gone back and forth about who should get the money, and whether it should be for rail or whether it should be for buses.

The MTA has already undertaken the lead in developing many of the practical applications to harness the highest technologies to practical everyday uses. We are involved not only in providing jobs, we're also in the business, obviously, of transporting people to their work places and, hopefully, as a result of it trying to improve the environment in which all of us have to live and work. The MTA at the present time is an integral partner in the development of an urban reinvestment strategy; is involved in the advanced technology of transit buses and the building of standardized light rail vehicles. We're involved in fuel cell technology, alternative fuels, and new engines, and something that, I believe, is one of the most exciting ventures of all: the interconnection of the various transportation modes here in Los Angeles.

Los Angeles is probably one of the best places to be at the present time. It's the best laboratory that we could have in the area of transportation. Over the next thirty years, we will be spending close to $190 billion for the build up of our transportation system here in Southern California, which will connect Orange County and, ultimately, San Diego County, Riverside, and San Bernardino County to Los Angeles.

The questions that have been raised, and the issues that have been raised by Mr. Anderson, I think, are things that we're already involved in. Clearly, we are aware of the problems we have with the defense industry, and the tremendous loss of jobs that we have had over the last decade, and which will continue for the next several years. How do we really harness the intelligence that we have already in the defense industry? I think that we've already been able to demonstrate that. The last contract that was let for standardized light rail vehicles put together some of the largest defense industry companies in the entire country. They came together to use their technology and, ultimately, begin to stimulate the job creation market. I believe that the technology and expertise that we have in Southern California can be used as a stimulus to create not only light rail vehicles, but to create advanced technology transit buses, better known as electric trolley buses. We have already spent in the area of $10 million in this area, and we are going to spend even more money, so that we can be competitive -- competitive as a county, and competitive as a market for the development of jobs, and the development of converting the technology that we have already in the aerospace industry, to develop it here in Southern California. I think we have a great opportunity, if we can establish the joint partnerships we need between government and the private sector.

We hope to create a transportation center that incorporates all of the various modes of transportation here in Los Angeles. We will have going into Union Station light rail, Amtrak, heavy rail; we'll have a bus system; we're going to have a communications system that all feeds in there. And it is the best example of a joint public/private partnership, where you have the talents in the private sector, along with the MTA, in trying to establish a transit center for the entire Southern California area. Why is that a good idea? Its a good idea because it creates jobs. Not only does it stimulate jobs, but it also stimulates jobs on a long-term basis. We estimate that in the next three or four years Union Station can generate 4,000 jobs very easily and, probably, 2,500 to 3,000 long-term jobs, given the mix that we have of retail and commercial, as well as transit-related activities.

So, the MTA I believe, is the forefront. We are working with all the related defense industries to try and harness the tremendous talent that we have here in Southern California. For a long time we got out of the business of construction of rail vehicles and the like. I think that transportation is probably one of the only areas where there seems to be public support. We need to keep the jobs here; we need to keep the investment here, in Southern California. That is certainly my objective and the objective of the MTA.

SPEAKER BROWN: Thank you, Mr. Alatorre. Mr. Dennis Cuneo is the Vice President of New United Motor Manufacturing. They have taken and adapted an old industry to the technological advances of today. Let me ask Mr. Cuneo to share with us his views.

MR. DENNIS CUNEO: Thank you, Mr. Speaker.

NUMMI is a joint venture of GM and Toyota and was created in 1984. It was a company that had to change the way business was being done in the car industry. There maybe some lessons there for the state in general. We took over a closed GM plant in Fremont. This was a troubled plant. When it closed, there were 7,000 grievances pending; 25 percent of the work force had filed Workers' Compensation claims; and in the GM system, it was near the bottom in terms of productivity and quality. We agreed to hire back the former GM work force and agreed to recognize the UAW as the bargaining agency for that work force. Together with the UAW, we entered into this contract; we called it a "Letter of Intent," where we were going to try to avoid the old confrontational system and form a new cooperative relationship. We did, and we found out you build better cars when you cooperate rather than fight.

Today, this California work force that we employ is as diverse as any work force in this world. It builds cars of quality and productivity levels that match any built any place else. As the result of that, we have attracted new investment from our parent companies. Since 1984, a total of $1.5 billion has been invested in NUMMI; we have had three expansions; we now employ 4,200 people at $20.00 an hour, plus $10.00 an hour in benefits. By the way, those 4,000 people made 16,000 suggestions last year. We have $800 million California purchases and payroll, and we will export $400 million worth of goods to Japan, Taiwan, and Canada this year.

The lesson at NUMMI is: here we are -- two adversaries -- labor and management. In the auto industry, we had been adversaries since the '30s, maybe since the days of Henry Ford. When he announced the $5.00 an hour day, he said, "The assembly line is a haven for those who don't have the brains for anything else." That is the kind of sentiment that guided auto industry management for years and years. We fought with our unions, and the Japanese were cleaning our clocks, because they were working together with their line workers and building better products. The lesson is, if we can drop those adversarial roles as we did, between us and the UAW, then perhaps the state government and business can start dropping some of the adversarial roles that we have.

I've heard a lot about the problems we face. The biggest problem in my mind is that, in this state, there is an adversarial relationship between businesses and the regulatory agencies that regulate them. It seems -- and there is fault on both sides -- that the regulatory agencies' first approach is, "We have to get you; we have to stop you," instead of coming together and saying, "Can we come up together with a win-win solution that meets the public policy goals and yet allows this economic enterprise to thrive?"

We are happy to be in California. We think it's a good place to do business; we hope to be here for many, many years. I thank you, Mr. Speaker, for holding this forum, because this kind of forum can start to develop the kind of consensus that we need to form positive public policy in the future.

SPEAKER BROWN: Richard Martin of Taco Bell, a truly unique California-based company.

MR. RICHARD MARTIN: Being last after two days, I wouldn't be surprised to see the "energizer bunny" come across the screen.

I am delighted and encouraged. I think that the mood here is bipartisan. I think the confrontational dialogue is coming down quickly. I really believe there really is a need for consensus and for collaboration, and I think that's where we all have to begin from. I would like, very quickly, to offer Taco Bell as an example and as a company that can do more for the State of California.

Ten years ago, we were a company in trouble. We were a small, regional company that, candidly, was about to go out of business. In the late 70s, early 80s, our real growth per store had gone down 16 percent. We didn't have a choice; we had to change or disappear. So we did, and we did that primarily by listening to our customers and by making changes that were not small and incremental, but big changes. It involved risk. We felt we had to do that; otherwise the bureaucracy would come back and beat us up.

Today, things are a lot different. We are externally focused; we have 4,000 restaurants; we do about $4 billion in sales, which is one heck of a lot of 59 cent tacos, I can tell you. Our average prices today are actually 25 percent lower than they were seven years ago. We employ over 100,000 people; we serve 30 million customers every week, which is a lot of people. Logically, now, you would say, "That's wonderful, that's great Taco Bell PR; but what does that have to do with anything?"

This year, our capital investment will be over $800 million. A substantial number, I think. Over the next two years, we will open 1,700 points of distribution; we'll create 35,000 new jobs. California will get a good part of that, but they could get a lot more. I guess what we are saying is that, like a lot of other growing businesses in this state, we need everybody's help to do that. We are not even looking for a special carrot. We think we can make it on our own, if you could just make it a little bit easier for us to do the things I think are good for all of us. We are not here to make threats and say we are going to leave this state. We are here to be an active part of change in this state.

I think this is a blessed state in a lot of ways and I think it's a great state. We are absolutely dedicated in being a part of it's future. We really thank you for putting this forum together.

SPEAKER BROWN: Thank you. That's an incredible story. Let me now introduce Woody Clark, the Director of Special Projects for Cal State University, Hayward.

MR. WOODY CLARK: Thank you, Mr. Speaker. I am not an economist or a lawyer; I am an anthropologist. My role in the world is often to get people to communicate together, because they often talk past one another. What I have been doing in the last few years is focused pretty much on defense conversion and technology transfer, primarily with the federal labs, which has a great impact on the State of California.

Just as an example, Lawrence Livermore Lab in northern California, has an annual budget of $1.3 billion and employs 9,000 people on one-square mile of property in Livermore, California. In working with the people in Livermore, we have discovered and a great deal of innovation and technology. A lot of people who recognize the reality of the end of the Cold War want to do something entrepreneurial, so we have provided programs and opportunities for them to do that.

We have put together a proposal to have a high-tech center in downtown Oakland. That facility, which is an old historical landmark building, is in the center of an urban area; it's surrounded by a diverse population, with very talented people from the Berkeley/Oakland East Bay Area. But the most important thing is the concept, which is to take technology out of federal laboratories to the customers. That is, to the business community where new entrepreneurial activities can take place. We have set this up so that it will offer business incubators. They will deal with high-tech kinds of technologies and, hopefully, we will spin off into other parts of the East Bay, and perhaps even be a national model for other communities to follow.

We've heard people from the community college system; I'm with the Cal State University system; and I'm a PH.D. from the UC system. We all talk about our own vested interest. Why don't we create educational zones, where we all begin to cooperate and begin to interlink vertically with one another? Take the education to the community. That's one of the things we are going to do with this center. We are going to provide business education in that building. You are not going to have to go to Hayward, to our campus,; it will be provided in the building, for people who are actually operating entrepreneurial businesses; for people in the community who want the kind of business training that is necessary to be successful; to avoid that failure rate of 80 percent that someone mentioned earlier.

As an anthropologist, one thing I have noticed throughout this meeting is that we have had a tendency not to define things. I'm glad that today somebody -- Kathleen Brown, in particular -- started to define what infrastructure means. People have talked about global. From our perspective, global is anything beyond your neighborhood, and I think we have to think that way. We have got to think globally for a lot of different reasons, not only to be competitive within our state, but with the rest of the world. I think we have to begin to define, for example, what "defense conversion" means. It means economic conversion. It is an economic reality; it's not a matter of shifting a person from one job to another, but of beginning to empower people to take some control over their lives. Provide them with opportunities -- perhaps if they want to get into a new job, but also a new business or new venture of some sort.

Three recommendations very quickly. One is, my concern in general -- California has been referred to as the "People's State"; lets act like one. Why not have a trade representative at the state level for our state and have offices throughout the world to represent small and large businesses and open up the opportunities that we need? Second, we need a technology transfer and commercialization office at the state level, and we also need it in the California State University system, as well as other systemS. There are people with ideas and opportunities, and we need to do something about it and help them know what licensing is about; know what legal issues are; know what accounting issues are. The third thing I really would like to suggest is that we talk in terms, not just of enterprise and entrepreneurial zones, but of educational zones. And, let's work together. Let's not put business over here, education over here, and look for labor and government and other areas as well. And, finally, I just want to say, frankly, I am very high on California. I think, right now, based on what I have heard the last couple of days, California is suffering from what I will call "low self-esteem." Let's do something about it, and let's do something together. Thank you.

SPEAKER BROWN: Thank you very much, Dr. Clark. I would call to your attention that, several years ago, during the Deukmejian administration, we created a World Trade Commission and a World Trade Office for California. We currently have four or five outposts located in other countries where there are trade opportunities to be pursued. They are not, clearly, as well funded as they should be, and it doesn't surprise me that they have not been highlighted, but that is the only commercial you are going to get out of me, because it was my bill. Now, Mr. Jack Ybarra.

MR. JACK YBARRA: Thank you, Mr. Speaker. I want to follow up on the issue of the high-speed rail. I see this whole issue as providing tremendous opportunities for California in terms of the creation of jobs. As you know, the highway program is pretty much coming to an end. The next phase of public infrastructure that has to be built is interconnection of our cities through rail. The northeast corridor that travels from Washington, D.C., to New York and Boston was created in 1976 by Congress. It has appropriated $3.5 billion to develop the infrastructure along that corridor. That includes the funding of AMTRAK Metroliners that now operate in that corridor. In addition to that, that corridor has received over a $1 billion in FTA and UMTA support, plus state and local monies, for a total of $4.5 billion.

Let's look at the California corridor. That is, the corridor from San Diego, to Los Angeles, to San Francisco. It has received from the Federal Railroad Administration zero, nothing, not a dime, since 1976. UMTA, the FTA, local, and state sources have provided in the neighborhood of $100 million. The distance of the northeast corridor is approximately 425 miles. There are approximately 29 million people that live in that corridor. The California corridor is 465 miles, and approximately 21 million people live in that corridor. Recently, an announcement was made that an additional $500 million will be provided by the federal agencies to electrify that corridor and to test the X2000 Tilting High Speed Rail Train.

Here in California, Senator Kopp introduced some legislation that would create a High Speed Rail Commission. That legislation was vetoed by Governor Wilson. The Legislature had already authorized the conduction of a high-speed rail or inter-city rail study, but there are no monies available for it. Senator Kopp has now introduced a Senate Resolution to create a committee, but the problem still remains with the Governor as to whether or not he will agree to allow such a committee to be created. He wants the California Transportation Commission to conduct this study.

So, while we are here in California, arguing over who is going to name a committee to conduct a study and who's going to sit on that committee, and who will influence the decisions of the committee, $500 million are now being appropriated to the northeast corridor for development. If that isn't bad enough, that corridor is represented by 14 U.S. Senators and countless U.S. Congressmen. In California, we have two freshman Senators who have very little experience in the area of transportation, and we have a Congressional Delegation that, hopefully, would get together and provide some leadership here. We are missing an opportunity if we do not move quickly, given the fact that the Chairman of the House Public Works Committee is from California and wants to help. The President yesterday indicated he wants to help California, and, if we don't move quickly, now that we have friends in the right places, we will be arguing about who is going to chair the committee or the commission to conduct the $1 million study for years to come, while the northeast corridor continues to receive additional millions of dollars for its development.

Mr. Speaker, may I suggest that you are seated next to one of the most influential and highly respected leaders in transit management in southern California, Richard Alatorre. And in the audience, we have another very highly respected young leader from San Jose, Ron Gonzalez. May I suggest that the three of you get together with Congressman Panetta, and let's show some leadership here. We desperately need to move quickly before an additional $500 million is appropriated to the northeast corridor. Thank you.

SPEAKER BROWN: Thank you very much. Yesterday you heard from the Chairman of the Board of Pacific Telesis. We have here today the President of Pacific Telesis, Mr. Phillip Quigley.

MR. PHILLIP QUIGLEY: Thank you, Speaker Brown. This is an interesting session, and I kind of view it as a cathartic moment, an event to take advantage of and I, too, compliment you. I was excited about participating in the event today, because it is an opportunity to launch, not to study anymore, but to launch this strategy that I think has been evolving in the state. So again, I commend you, Mr. Speaker, for bringing us together to talk about it, not to debate it too much longer, but to get on with it.

I thought it was an interesting comment you made when you kicked off this afternoon's session, Speaker Brown. You were talking about a vision, a vision of telecommunications and information highways, when you said that this session is not an interactive session, as it was with President Clinton yesterday. We are beaming out, but we are not receiving comments.

What I represent is an industry that will allow an interactive session, that can take this kind of a forum and enlarge it, literally to millions of Californians, rather than on a one-way basis, a two-way basis, so that the messages that are being conveyed today, the discussions that have taken place today, could have and will in the future take place with millions of Californians inputting on the process itself. It's a vision, and I think it can become a reality. You challenge us indirectly, Mr. Speaker, in saying that this is not an interactive session, but can be in the future. Think about the possibilities that can come from, not just concrete highways, but literally telecommunications, super fiber optics-based highways of the future. Town halls meeting from various parts of this great state can be brought to Sacramento. We can stay in touch constantly with our constituencies and their views, whether we are business people, government, academics, or others.

Vision, what is it? In order to understand where you're going, you have to understand where you are today. I only represent a segment of the telecommunications infrastructure in California and Nevada. Where are we today from Pacific Bell's and Pacific Telesis' stand-point? We invest about $2 billion a year in California. That's not insignificant. We employ 55,000 people. Our vision for tomorrow is to grow our job base and to continue to invest, but also to achieve the vision of the super highway concept, literally to fiber optics capability, to bring information to the home, to the small business. In the visual and multimedia context, there is a gap that needs to be closed. Over the next ten years, we will invest probably in the range of $20 billion on our infrastructure in the State of California. In order achieve the vision I just described, it probably will cost another $10 to $15 billion.

So the question is: If you have a vision, and you believe that the mobility requirements of California need to be dealt with -- that we literally need to move electrons and information and not just people -- if you believe that, if you believe that people love to interact visually with one another and just not over the telephone, and that it enhances understanding; it enhances communications; it enhances decision-making; then you have to collaborate and close on this vision.

My vision, again, is that we can have these electronic highways. We can interact remotely in a learning environment with students and the best teachers from San Diego to Sacramento, sharing their knowledge in a most effective and efficient way. We can have universal telecommuting. And, as Assemblyperson Eastin has mentioned, if we were just to take 6 percent of the people off of the highways in Southern California, 50 percent of the congestion problem would be solved. A modern telecommunications advanced network can accomplish that. It can accomplish also tele-medicine, literally allowing the radiologist in Escondido to talk to the radiologist in Eureka about his or her patient in a visual way. That can be a reality.

So, Mr. Speaker, the question is, how do we get there? I think that is the challenge. What will it take? I think there has been a lot of substantiation here of the recommendations of the Governor's Competitiveness Council's Report, and John Vasconcellos' suggestion in the ADEPT Report. I think the issues are pretty well understood, and I think it is the time for action. There are a lot of policy issues out there that we must deal with. We must all have a collaborative attitude, that partisanship ought to be put the side for a while. This may sound like a naive political gesture, but if legislators were to pass a law to put a moratorium on all non-economic based legislation for just 60 days in this state and deal only with those key issues that rise to the top with great priority -- just 60 days to establish a direction and jump-start what it is we need to get done -- that the people of California will look at their legislators in an absolutely phenomenal way.

What else do we need to do? There has been a lot of talk about regulatory command and control systems in this state. I have to tell you that does exist. California needs the types of incentives that spur business on to continue to invest in ways they might not have invested before, such as the tax incentives which were discussed earlier.

Lastly, Mr. Speaker, I think that from a directional standpoint, all you have to do in the Legislature is perhaps pass a proclamation that says, from a telecommunications' standpoint in the State of California, "We will be second to none, and we will monitor that and hold us accountable." Thank you.

SPEAKER BROWN: Thank you very much, Phil. Let me now ask Michael Stoker, Supervisor from Santa Barbara, to comment.

MR. MICHAEL STOKER: Thank you, Mr. Speaker. What I think I have to share, hopefully, will end up being a success story. It really goes back to 1989, when I wasn't a County Supervisor -- I was a land use business attorney and, like many of the people who have testified here, I was very frustrated with what I say happening in terms of the regulatory climate in the state, and in our county in particular, which had the reputation of being one of the worst places to do business in the State of California.

In 1989, Motorola came to our county and wanted to launch commercial space vehicles at Vandenberg Air Force Base, as part of a project that would literally employ thousands of people and bring in $1 billion plus infusion into the economy. After meeting with county officials, they stated in the local media that they would not do business in California, and, in particular, they would not do business with the "Sovereign State of Santa Barbara." That was the day I decided to seek office as County Supervisor.

Upon being elected to the office, I met with three people, Dottie Renfro, Colonel Earl Savaro, and Don Smith, who have been very involved with the Western Commercial Space Center, to try to find out how we can get this back on track. And from meeting with them, I started meeting with representatives of various chains of command in the aerospace industry, in particular, with people affiliated with Motorola. What happened from that experience, and what I can say today, is, we have made changes in Santa Barbara County. They are the kind of changes I think a lot of the people at the Summit have been talking about -- it's really a change of attitude. It has been a change away from the attitude that industry or business is the adversary.

Today, we have different policies in our count. Previously, environmental regulatory agencies would write their rules and then involve industry, as part of workshops. Now, we involve industry at the outset. Before we start the rule-making drafts, we tell them what our environmental goals are and ask them, based on their expertise: How can we better accomplish those goals in a less offensive and costly owners way to business? What we are finding in Santa Barbara County is that experts from industry often can provide us the expertise to do it in a better way that does reduce the cost of business.

The second attitude that we changed is that business can't pay for everything. One of the benefits of bringing industry more into the loop and going through the rule-making procedures, is that you can reduce the size of government itself. In our county, the environmental regulatory agencies are involved in a major downsizing. The corollary to downsizing -- especially when you come from a county like ours, where all those departments are fee driven, and industry pays for the fees -- has been that, as we reduce that size of those departments, we are able to reduce the fees that are charged. If you look at our county over the last two years, fees in the air pollution control district, environmental health, and the resource management departments have gone down by an average of 20 percent.

Finally, we have changed, I think the attitude of elected officials. The Governor said yesterday that elected officials at all levels have to be cheer leaders and sales people. I think he is right. I found in dealing with Motorola and in dealing with other industries that could potentially come to Vandenberg, that it was important for them to know that they were going to have an elected official who cared, who wasn't going to give anything away, who was going to be fair, and who would be accessible. That really has made a big difference. I think we have to change the perspective that business is going to come to us and we will support them; potentially, to we have to be ambassadors and go out to them. Today, our relationship with Motorola has completely turned around, and they are on the verge, working with their new partner, McDonald Douglas, of committing to numerous launches at Vandenberg Air Force Base. Just two months ago, Orbital Science Corporation, which was on its way to South America, committed the Pegasus Program to Vandenberg Air Force Base. Keep in mind that these thousands of jobs and billions of dollars are not going to other states, they are going to either Japan, China, Russia, or South America. That is what we are competing for.

My recommendations, Mr. Speaker. First, we need legislation that provides sales and use tax benefits to make us competitive with the State of Florida -- not Cape Canaveral, the State of Florida. That would be the deal clincher for Motorola. I really want to thank Assemblyman O'Connell, Assemblywoman Seastrand, and Senator Hart for their nonpartisan efforts to stop the grid-lock. They've worked with the community; they have provided tremendous help; their staff has been a great, great asset in pursuing this. If this bill is passed, it will not only realize Motorola, but probably ten to fifteen more companies that will use the polar orbit which can only be launched at Vandenberg Air Force Base.

Second, during yesterday's discussions, it was suggested that at times there is competition between an investment strategy and a restructuring strategy. I don't think the two are mutually exclusive. In our county we have found that solving many of the structural problems allows business to use that money for investment. So the investment and the structural reform suggested by Mr. Ueberroth and Assemblyman Vasconcellos are both needed.

Finally, Mr. Speaker, I'd like to thank you, because it is amazing what a simple letter can do. I know we're not in your district, but you worked with our group. On January 15th, you sent out a letter to Dan Golden, the Administrator of NASA, and a simple letter like that, supporting the efforts of the Western Commercial Space Center, is already realizing positive impacts. It sounds simple, but elected officials, by being the ambassador and going out there and showing your commitment, can do an awful lot to start changing the climate in California. I want to thank you for your letter, and I will be writing a letter to the Governor tomorrow, urging him to join you with a similar kind of letter. Thank you. (applause)

SPEAKER BROWN: Michael spoke of Jack O'Connell and Andrea Seastrand, one Republican and one Democrat, working together. I am pleased that he mentioned it, because a number of people have called for bipartisan cooperation. In reality, that's what happens about 90 percent of the time in the halls of Legislature. Nothing can be enacted into law of any significance without 54 votes in the Assembly, 27 votes in the Senate, and a Governor's signature. There are only 47 Democrats, 32 Republicans in the Assembly; and in the Senate, the split includes a couple of Independents. No one party has 27 or 54 votes, and only one has a signature.

Now, I want to recognize a man who has seen us work together on a bipartisan basis and who has hosted many occasions for legislators on both sides of the aisle to talk about public policy making, the Chancellor of the University of California at Davis, Dr. Ted Hullar.

DR. TED HULLAR: Thank you very much, Mr. Speaker. Like others, I would like to commend you for courage, your vision and your leadership in convening us together, and allowing this frank exchange of ideas and information so that we can together forge a better, stronger California.

Universities, of course, are partners in economic development and economic competitiveness and sustainability. You've heard about that before. I'd like to expand on that a bit. The intellectual resources in this state, as embodied in its universities, are, without any doubt, unrivaled any place in the world -- particularly if we consider California a nation, as has already been suggested. The nine campuses of the University of California, Stanford, Cal Tech, USC, are names that ring so well in the minds of so many throughout the world, and are seen as meccas for many to come, study, learn, and do research. Combined with that, the CSU campuses and our community colleges and the other private colleges and universities truly unrivaled. In addition, we have national laboratories -- Lawrence Livermore, Lawrence Berkeley, Slack at Stanford, the Jet Propulsion Laboratory -- and no other state in the nation can begin to equal that. Then there are the private sector laboratories throughout the major industries of this state, such as those in Silicon Valley and Southern California, and, of course, the think tanks, such as SRI in Northern California and Rand in Southern California.

Well, what's been done with all of this? We have already heard about agricultural research started way back in the 1860s and 70s -- best embodied by UC Davis -- bringing an agricultural production system, again unrivaled any place in the world. After World War II, the universities and colleges of California served as a magnet and an educational force that has driven much of California's economy since that time. We grow ideas in California. We have, for example, continued the idea of the frontier, as represented by the media and all that's come out of the film industry. But the general concept of the frontier is embodied in what we find in Silicon Valley: micro processors, computers, micro electronics. It's also embodied in biotechnology. Those two industries, as important as they are for the world, started right here in California and right here at our universities. Those ventures, however, could not have succeeded without partnership. One good example of that is the

Stanford Research Park, started several decades ago. Another example is the California Council on Science and Technology and it's Project California, which Roy Anderson has talked about.

At UC Davis, we have a partnership program: UC Davis, the Federal Government, and the private sector, working to determine how plants can be modified so that they are truly resistant to diseases and other things that effect productivity, so that we in California can continue our productive agriculture. And, of course, there are the economic initiatives that I believe you heard about yesterday from our President, Jack Peltason.

Well, what's to be done about all of this? How can we make even better use of these intellectual resources? It seems to me there are two parts to this: one is attitudinal, part of that is our own self esteem; the other is operational. First of all, we must safeguard our intellectual infrastructure. It starts with student financial aid, including the Cal Grants that must be secured so that the young men and young women of this state can, in fact, secure educations in the state, just as earlier generations of Californians have.

Secondly, and this is certainly attitudinal, we must value these universities and colleges, and we must dedicate ourselves to ensuring that they are sustained.

Thirdly, they require adequate funding. At the present time, given the situation with the state's budget and the state's economy, it's fair to say that the funding pattern for UC and CSU and the community colleges is inevitably, inexorably driving them to bankruptcy. Those are not hollow words; those are not false statements; it is quite literally true.

We must take advantage of the intellectual frontiers that we are developing right here in California. Let me just name some of these: biotechnology, as I mentioned; cognitive sciences and software; advanced materials; transportation systems, such as may well be embodied in CalStart and Project California; environmental biology and technologies to make sure we clean up the waste we have already discharged and we don't discharge anymore; and manufacturing engineering. We must also be a leader in setting the national science and technology agenda. We must be a leader in this realm. We must increase the roles of our intellectual resources in assisting California's economy, in part, by the universities, including UC, reaching out; in part by others reaching in. We must be aggressive in advancing our case. Roy Anderson, for example, talked about the Meglev research. We must be sure that we do 100-percent effort to be sure we get that. That can only be done, my friends, if there is a major partnership, with the Legislature and the Executive Branch working with us to make sure there is adequate funding to ensure that project comes to California and does not go some place else.

We must focus, of course, on the non-science and non-technology barriers that may be impeding our economic competitiveness, and there's been plenty said about that already.

Lastly, let me say, we can do that. And we can begin to secure our economic future if all of us -- universities, government, and industry -- recognize that it's our kids and our families that are our most important asset, and that everything we do must be sure to uplift them and secure their futures. Thank you very much. (applause)

SPEAKER BROWN: Thank you. Now, Mr. Ray Rossi of Intel Corporation.

MR. RAY ROSSI: Thank you, Mr. Speaker. Intel is the corporation Dr. Levy referred to yesterday as the "invest-or-die philosophy" company. The reason for that is that, in our business, we are extremely competitive world-wide. We are now the world's leading semiconductor and systems company.

What I'd like to talk to you about is where the earnings come from to invest to that extent. And quite frankly, they are earned not as the commercial on the investment houses say, the old fashioned way, but in new ways -- by benchmarking and by being competitive and cost conscious. I would hope that in this forum that this would be a catalyst to help manufacturers in this state, like Intel, renew their base, and to do that by looking at other states and establishing a benchmark.

I recently attended a joint hearing of the Legislature's tax committees, at which time it was indicated that we didn't know what other states were doing on tax policy. One item of critical importance for manufacturers is a sales tax exemption on the productive assets -- that's the equipment used to manufacture. Three-quarters of the states grant such a sales tax exemption on that equipment. They do that, because it causes people to invest there obviously, but also because the output from that equipment is taxed. So, in effect it is double-taxed, if you tax the assets as well. I would hope that this forum, as I said, would act as a catalyst to examine that.

In Intel's case, we are looking at an investment of some billion dollars in the next plant. Obviously, an eight percent disincentive or penalty on that billion dollars, $80 million, does matter, despite some of the things that were said earlier in the seminar. $80 million is a big number to any company.

I also want to take the opportunity to commend you for being here, involving us in this process, and I would urge you to do the benchmarking that I have suggested. Thank you.

SPEAKER BROWN: Mr. Rossi, we'd really like to follow up with you, because we would like nothing better than to assist in relieving you of that potential $80 million exposure on a $1 billion investment. Obviously, that $1 billion investment will translate into a number of jobs that would be permanently in California, I would assume.

MR. ROSSI: Yes, it does.

SPEAKER BROWN: Mr. Gray Davis obviously had some ideas about that on a contractual arrangement. Maybe we should explore those. Thank you.

Mr. Burts.

MR. EZUNIAL BURTS: Mr. Speaker, Ezunial Burts, Executive Director of the Port of Los Angeles.

On the issue of infrastructure investment, we have in this state a true opportunity with international trade. International trade is still one of the bright spots in our economy. And I think there are opportunities for the State to encourage additional development of jobs, additional development of revenues and additional development of investment for infrastructure. Most importantly, the ports in this state are already investing in infrastructure. They're investing in waterside infrastructure, landside infrastructure, rail and road infrastructure. One of the problems we have, or maybe it is an opportunity, is that ports really are fixed assets. We cannot move these ports around. The investment that we have is fixed. The State of California is truly a gateway -- a gateway to the rest of this country. About half the cargo that moves in and out of this state is cargo that does not stay in this state. It is cargo that is destined for some place else. However, our ports must stay competitive. And so, I want to offer a couple of ideas to keep California's ports competitive.

One, of course, is the recognition that in the Pacific Northwest there are some advantages. Land is cheaper; there is a shorter ocean voyage, by two days, and cheaper rail service to the Midwest. Local governments subsidize those operations. We have to recognize, in crafting legislation, that we cannot look just at fiscal impact, we must also look at competitive impacts.

There were comments earlier about integrated transportation systems. That is something that the state should encourage ports to do -- participate with the MTA, CalTrans, and other organizations. Mr. Speaker, I suggest that a trip, a trade mission by yourself, the Governor, and Mr. Roberti would have the greatest impact on soliciting business, telling the story of California an influencing people to come here and do business. To go out on a people-to-people basis and say that this state is willing to generate business.

Finally, let me talk about the need to establish a small business institute in this state. With 55,000 small businesses, there is a tremendous opportunity to engage in international trade. I think the state ought to encourage or develop a small business institute and teach people how to become involved in international trade. It is a bright spot in our economy. I think there is an opportunity for the state. Thank you very much. (applause)

SPEAKER BROWN: Thank you very much. Mr. Sedlik.

MR. BARRY SEDLIK: Thank you, Mr. Speaker. I'm the Manager of Business Retention at Southern California Edison, and, over the last few years, we've literally talked to hundreds of companies, some that have left California and others that are still contemplating California. When we call on these companies, they often show us two piles of proposals: one pile with the brochures and spreadsheets from states across this country and, unfortunately, the second pile is of similar glossy nature, but those are from cities and regions within the state. This sends a terrible message to companies in California: that the state doesn't have it's act together. We are acting in a cannibalistic way and just churning jobs instead of creating new jobs. We need to look at some of the underlying causes, namely municipal financing, that make it in our cities' best interests to covet their neighbors' businesses. We have to turn that around, and, if we can do that, we will be in a much better position to add new net jobs to the state, not just move them from one place to another. Thank you.

SPEAKER BROWN: Thank you very much, Mr. Sedlik. Now, microphone on the left?

MS. CAROLYN DYER: My name is Carolyn Dyer. I am a realtor, and I'm from San Jose, California.

I'd like to address this question to the Speaker. A lot of homeowners are being barred from getting funding for their loans, and I would like to know how banking institutions can help homeowners who are at risk. They already have loans, but when they attempt to get refinancing, they are denied. Lenders tell them, "No, because you missed the deadline two times within 12 months for making a payment." How can we change this policy? I want to say thumbs up to Mr. Willie Brown for taking action that will lead to change in the economy.

SPEAKER BROWN: Thank you very much. Let me ask two people. First, I'd like to hear from a gentleman who operates what is probably the most financially solid institution in the whole State of California. Dale Hanson runs a $70 billion operation called CALPERS. CALPERS has been in the process, for several years now, of trying to put together methods of financing, particularly of real estate operations in the State of California. Mr. Hanson?

MR. DALE HANSON: I'm actually a poor choice to deal with your question; I think the banking representative would probably be better able to talk about this. But, clearly, underwriting on mortgages has tightened considerably in the last few years, and I think this is coming both from the effects of the Financial Institution Reform and Recovery Act, and from a lot of federal agencies in the wake of the S&L debacle, if you will. A lot of federal bureaucrats are running very, very scared, and they're putting a lot of pressures on the banks to look at non-performing loans, and the underwriting standards simply have gotten much, much tougher. So, that's about all I can say with respect to your question.

I would, however, like to talk about what CalPERS is doing, because a year ago we announced the single-family housing program, and I thought I would bring you up to date on where we are with that program.

Currently, we have 3,000 units in construction. That's 25 projects. That represents a project cost of about $470 million, of which we are supplying about half of the financing, the equity gap financing, and some credit loans. If you look at our direct investments in California -- excluding stocks and bonds -- it accounts for 26 percent of our portfolio. I think we're doing a number of very exciting things.

During the last two days, a number of companies were represented here with whom we have been discussing private equity financing. In the last two months, we have announced private equity financing to the tune of $265 million for two companies here in California, which I think represents a great sensitivity to California and California investment. We are bullish in California. The glass is half full, not half empty.

I think there are a number of things that we can do positively and, clearly, this Economic Summit is a terrific first step, because I have learned more in the time that I've been here about what some organizations are doing. Our frustration, at times, is, who do we talk to? We really need to focus economic development, particularly at the state level, with one agency. We get eight different agencies coming to talk to us, and we're not sure who's in charge. I think that needs to be done and I think clearly we need a partnership with the University of California and the State University systems. We're actually a very tiny organization when it comes to investment staff. We've had the people with the electric car technology come in and talk to us about an investment. I don't have anybody on staff who knows how to evaluate whether electric car technology is something worth doing, but I am sure within the University of California or the State University systems there is that expertise. Why not have us hire that expertise in state? I really think that makes a lot of sense.

The other point that I want to make is that you have heard from three, and now I am the fourth, CALPERS representative during this two-day seminar. Kathleen Brown, the State Treasurer, is a trustee on the CALPERS Board. Gray Davis, the State Controller, is a trustee on the CALPERS Board. Bill Crist was on panel, too. He's a professor at the California State University, Stanislaus.

This Board is very much committed to California, and it does not take a rocket scientist to figure out why: we have one million members who are public employees employed by the state, the counties, the schools, and a healthy California is important to these public employees. Clearly, I think we're trying to demonstrate an openness and willingness to deal with business, with the academic community with any party to look at meaningful investments here in the State of California.

SPEAKER BROWN: Thank you. Let me now ask Mr. William Reid, whom I had the pleasure of meeting several weeks ago. He was introduced to me by Assembly Member Campbell. He comes from Richmond, California, and he gave one of the most thoughtful presentations I have heard from any banker. I'd like very much for him not only to respond to the questions from the audience, but to share with you his thoughts as to what banks can do to get the economy of California going again. Mr. William Reid of Mechanics Bank, Richmond.

MR. WILLIAM REID: Thank you, Mr. Speaker. The answer to the question, in a way, is quite simple. Most banks today sell their mortgage loans in the secondary market to government agencies, such as Fannie Mae and Freddie Mac. There are very specific guidelines promulgated by those agencies as to what characteristics the loans and the borrowers must have to be purchased by the federal agency. I'm aware of transactions, such as the one which has been suggested, where the rate is very high for today's market, but the loan cannot be refinanced, because the loan-to-value ratio has dropped with dropping real estate values. All the credit characteristics of the borrower are fine, other than the loan-to-value ratio. The unreasonable situation develops when that loan would become more credit worthy, because the interest rate would drop and all other characteristics would remain the same and, yet, the federal agency will not buy that loan. So, if the individual bank were to extend those funds, and hold the loan themselves -- what's called a portfolio loan -- it would have a black mark which, in today's regulatory environment, would be criticized by the regulatory agencies. The standard now is to have it reserved, which means that the bank would set aside a loss reserve and reduce their earnings accordingly. Unfortunately, most banks in the state today are avoiding those transactions, because they don't want to take on additional losses.

I'd make two recommendations to you in this case. One is to be very specific with the potential borrower about the conditions causing the refusal to extend the credit a second time. If it is but two late payments, explanation of that can be provided, and the loan could still be made. Second, there is a bigger issue, and that is to lobby the federal government to change the rules in this situation, particularly for us in California, so that banks could roll over those loans and have them salable, even though there is a characteristic -- namely, the loan-to-value ratio deficiency -- which is currently unacceptable.

As to your other question, we've heard a number of speakers in the last two days who have talked about the credit crunch or the scarcity of lending in this state. Most of them mentioned one of three things. First, excess regulation; second, legal risks; and third, the weak economy and, thus, the uncertain ability of the borrowers to repay.

I'd like to suggest that there's a fourth reason, which hasn't been addressed, which, in my mind, is larger, and that is the availability of deposits in banks to be able to make the loans. Obviously, if there is a lack of deposits in the bank, there will be a lack of loans. In the last year, deposits in California banks have fallen by $9 billion, from $284 billion to $275 billion, and short-term borrowings from banks on a secured basis have fallen another $7 billion. That's a drop of $16 billion. Interestingly, loans have decreased in California banks by $17 billion -- obviously, a very like number. And the largest single element of that is in commercial and industrial loans to the small businesses that we've heard discussed so much in the last two days from the standpoint of job creation. Those loans have dropped from $52 billion to $41 billion. That's a 21 percent drop in loans in this last year.

I have two ideas for increasing the deposits in California banks, which could help this situation. The more raw materials we have in banking, the more loans we're going to make. First, there is a level playing field issue with money market mutual funds. Money market mutual funds, those are the short-term ones, offer the same functionality as a bank and a checking account -- money payable on demand. Nationally, there is $600 billion in money market mutual funds. California's share of that would be approximately $70 billion. If you, as an individual, have an account with a bank, the bank keeps 10 percent of your balance with the Federal Reserve Bank in what's called a reserve requirement -- a non-interest bearing use of that money. If you have the same money in a money market mutual fund, there is no reserve requirement and, therefore, we're obviously at a competitive disadvantage, and rates tend to be higher with money market mutual funds. Interestingly, money market mutual funds are the ones who largely finance the name companies that everyone would know -- IBM, Sears, General Motors -- through the commercial paper market, and those, obviously, are the job-reducing companies, or job-destroying companies, of our country. And, yet, the smaller businesses who are the job creating part of the market, because of this inequity of having reserve requirements on our funds, are paying higher rates for loans. That's an inequity that doesn't seem to be good public policy.

We need either to level the playing field at the national level, by having reserve requirements on money market mutual funds, or, failing that, doing it at the state level, which is what I suggested to Speaker Brown. Such a statute at the state level would, in effect, block the flow of capital out of California, particularly when we're weak economically. That is a very natural thing for capital to do -- to flow from weaker areas to stronger areas. This could help offset that movement.

My second idea on capital flows into banks is the Pooled Money Investment Account, or the Local Agency Investment Account Funds of the State of California and its municipalities. This is a $23 billion fund that was established about ten years ago. Ten years ago, the Mechanics Bank had 8 percent of its deposits from public organizations, from cities and counties and their agencies in our area. Today, it's less than one-quarter of 1 percent, because these funds have now flowed to a central place to gain a higher return. Commercial banks perform under the Community Reinvestment Act, which says that we should invest in our communities, and I'm one community banker who thinks that's very sound public policy, even if it's hard at times to prove that we're doing it or to do it at all. But I think CRA is good public policy, and I think it would be good public policy within the state if our tax funds that are in a holding pattern were to be invested in the state, either by eliminating the Pooled Money Investment Account and having those deposits returned to banks, or to having LAIF do their investment far more heavily in bank deposits so the funds are available locally for lending.

SPEAKER BROWN: Thank you very much. I think there is something, Mr. Reid, that we can do. We can react in two ways. First, we ought to have Mr. Peace's committee, which handles banking in our House, determine whether or not a state statute can be designed to effect the change of which you spoke.

Second, I believe that when we visit Washington and meet with the Clinton Administration next month, the Governor and Mr. Roberti, along with the legislators who will be there, should begin conversations with federal banking regulators to see if such a change is possible at the federal level.

And now, Miss Carolyn Green.

<u>MISS CAROLYN GREEN</u>: Thank you, Mr. Speaker. I wanted to make a couple of quick comments on infrastructure and regulatory reform, particularly from the standpoint of someone in business who is also an environmentalist. First, what can the Legislature and regulatory agencies do to help us do a better job in the business community? First, people have said we need certainty and people have also said that we need flexibility. Unfortunately, most of the flexibility seems to be on the part of regulatory agencies. What we have now is a tug of war, the exciting game without any rules. Businesses are told that we should do one thing and then, when we do it, we are told we have

SPEAKER BROWN: Thank you. Let me ask Mr. Barden from AT&T for his comments at this moment.

MR. JIM BARDEN: Thank you, Mr. Speaker. I will follow up with Mr. Goddard's comments, because probably no other industry has been as affected by technology changes in the last decade, or will be affected in the next decade, as the telecommunications industry. At the same time, probably no other industry has been as regulated or more regulated than the telecommunications industry. When I link those two things, I'm reminded of Dr. Laffer's comment yesterday that he knows of no economy that has ever been taxed into prosperity. I would say that no new technology has ever been regulated into existence. (laughter)

Telecommunications, telecomputing, is a basic infrastructure, which is exploding as I said with new services and technology. Like any other basic infrastructure, telecommunications is an enabling industry. The better it is enabled, the better it can enable those it serves -- such as government, education, commerce, industry, and the medical and health care field. Mr. Speaker, the good new is that this is a basic infrastructure that does not require government investment to build or maintain. But, it does require regulation which is enabling and not disabling. The current regulatory system we have in place, which we have learned to love over the years, was invented in an era of monopolies, when competition could not exist, when new technologies came from only a very few sources, and they could be controlled, their introduction could be managed.

That environment no longer no longer exists in much of the industry, and I predict that by the end of the decade, it will not exist in any part of the industry. New technology is coming from many, many sources, as the line between the computer industry and communications industry and the cable industry all fade away; and, as we become, as Mr. Goddard said, a mega-industry. To cope with that, our regulatory system in California needs to be reinvented. And where marketplace competition does exist, there is no need for micro-management of expenses, investments, returns, etc.

Second, the adversarial process, which is so time-consuming, needs to be replaced by an environment that enables new technology to reach the market and new services to be introduced on a timely basis. We need a regulatory system that concentrates on setting performance standards and ensuring interconnect arrangements, so that everyone has universal access to this network infrastructure.

Finally, we need a system that allows rewards for the introduction and efficient use of new technology. The regulators, in my opinion, are not the problem. For the most part, they're dedicated and intelligent people; but they're trapped in a system that was built for another era with all the wrong incentives. They need to be freed.

Mr. Speaker, I thank you for giving us the opportunity to talk with you.

SPEAKER BROWN: Thank you, Mr. Barden. Now let's go to the audience.

MS. ROYE JOHNSTON: I'm Roye Johnston. I've been a business owner in San Diego for almost a quarter of a century. I've also been asked by the state office of United We Stand, which is the former Perot movement and now the largest group of swing voters in the state, to speak about two things that have not been addressed here very much, if at all, the last two days.

One: there is a budget of almost $58 billion, and it's tripled in twelve years. We've been spending money we don't have to buy things we don't need, and somewhere it's got to stop.

SPEAKER BROWN: What budget are you referring to, ma'am?

MS. JOHNSTON: Our state budget.

SPEAKER BROWN: You should be aware that the state cannot engage in deficit financing, and we don't deficit finance.

MS. JOHNSTON: I understand what you're saying, but we've been spending an awful lot of money. Last year the gridlock only cut $400 million off of nearly $58 billion. We would request that there be a consideration for cutting the size of government. In fact, we'll trade a meat cleaver for your paring knife any day.

The other thing that hasn't been mentioned is political reform. If you do only half of what has been suggested here, and rightly so, you're going to have a whole trainload of special interests screaming like a mashed cat. We're in dire need of statesmen -- not Republicans or Democrats -- who are willing to dismantle the money tree so that they can represent the California voters with impunity. Those are the two things that I think have not been addressed here.

I would like to ask a question of you, Speaker Brown. We are number one in business regulations in the United States. New York is number two, and we have 60 percent more regulations than they do. Would you consider using your capable administrative and leadership skills to demote us to, say, 20? We'd even settle for the tenth spot, instead of number one.

This Economic Summit has given the Legislature a great opportunity. When you leave office in four years, you will probably, even as now, be considered the best politician this state has ever seen. This Economic Summit gives you and the state Legislature an opportunity for you to have a platinum-plated red carpet to walk out of here as the greatest statesman that California has ever known. Will you take that opportunity?

SPEAKER BROWN: Well, . . .(some laughter and loud applause from the audience) let me advise you first of all, I don't take kindly to the invitation to leave. (laughter) I'm trying desperately to figure out some way where all this talent that you acknowledged ought to be continuously used by the State of California. So I will be making an effort to do that.

MS. JOHNSTON: We'll help you.

SPEAKER BROWN: On a serious note, your challenge to those of us in the halls of the Legislature to embrace these recommendations has, I can assure you, been heard. It's been heard not only by me, but by the Governor, by Mr. Roberti, by Republicans, by Democrats, by independents. I can further assure you we will be as responsive as we can in building a consensus on these issues. The building of a consensus is required, because, unfortunately, for your purposes, I do not have total authority. But I want you to know that I will make my best effort, and I suspect that my fellow Texan, who is the inspiration for your organization, would find it very easy to be complimentary if I can make the recommendations of this Summit a reality.

This summit was obviously put together, as Kathleen Brown indicated, at somewhat of a political risk. I very easily could have been ganged up on by everybody -- people from industry, people from the universities, people from the small business communities, people from local government. People could have turned a deaf ear on the effort, and it would have been a failure. The fact of the matter is, they did not. Everybody eagerly accepted my representation that this is a sincere effort, and I'm certain that you would have to agree that it was free of any partisanship...

MS. JOHNSTON: Absolutely.

SPEAKER BROWN: . . .The way in which we conducted this meeting and the way in which we put it together was designed to show even-handedness. I can also assure you, as well as the rest of the public, that from this conference will come a series of efforts, and they will be approached in the same fashion. If, when 1996 arrives, I have to leave, because of the Constitutional mandate, I would hope it would be recorded that there walked out that door the quality of statesperson that we want for the people of the State of California. Thank you for your kind remarks, and I will earn your trust. (applause)

MS. JOHNSTON: I would observe that if you can pull this off, the sky's the limit.

SPEAKER BROWN: Now you're making it difficult. There are a lot of other politicians who already believe I think the sky's the limit. Again, from the audience:

MR. KEVIN BIGGERS: Thank you, Mr. Speaker. My name is Kevin Biggers, and I'm from the High Desert. Through our area, down the Interstate corridor, millions of cars travel to and from

Las Vegas and Los Angeles. The State of California is losing billions of dollars to the State of Nevada. I really urge the Legislature to consider legalizing Las Vegas-style gambling in our state, so we can have tax revenues to do the things that we would like to do. Thank you very much, Mr. Speaker.

SPEAKER BROWN: Thank you kindly. Over to the right.

MR. BURT CORONA: Mr. Speaker, my name is Burt Corona. I'm the Executive Director of the El Mandal Mexicana Nacional. In English, The Mexican National Brotherhood. We are the second largest provider of literacy, survival English, adult basic education and citizenship acquisition classes in the State of California. We have taught over 175,000 of the 1,780,000 young adults who qualified for the amnesty program. These are some of the Latinos who compose almost 30 percent of the total population of our state. They are largest number in poverty, the largest group in unemployment, earn the lowest amount of wages, and have the lowest levels of education.

The positive qualities amongst us is are that, even though over 35 percent of our people do not have a paid health plan, we are the healthiest group in the State of California. We live the longest. We see doctors the least. We spend the least time in the hospitals, and we have the lowest rates of smoking by women, drug use by women, the lowest rates of infant mortality, and the lowest number of deaths from cancer and cardiac arrest.

We also work the longest hours per week and get the lowest wages. We are the working poor in the fields, the factories, the restaurants, the hotels, the hospitals, the garment trade, and in many other manufacturing industries.

In thinking of economic development strategies and frontier economic opportunities, I urge you to take into serious consideration the following: In Los Angeles County, there are 103,000 small business licenses that have been taken out by Latinos -- 103,000. If each one of these businesses were to add just one more employee, we would have created 103,000 jobs. Just one. But, they can't expand because they have no capital. The banks have bypassed us. There has been much said here about support for small business. It hasn't come our way.

In farming, we're organizing in economic development, and in business assistance. We have organized some 200 strawberry growers, who, in the off-season, grow broccoli, snow peas, cauliflower, and so forth. They are practically bankrupt. They have organized themselves into a co-op, so that they can get working capital. No local banks will lend them money. They're already in debt to the hilt. They owe everybody on God's green earth, and they need working capital so they can save next year's crop. If they don't survive, just think of the amount of unemployment that would be created, the amount of economic depression that would be created.

Finally, in Los Angeles, 350 or better Latino businesses were burned in last spring's civil unrest. To this date, they have only been able to get about 45 loans to restore their businesses. FEMA, SBA, and the banks have failed the Latino small business people.

I would ask for three things. First, I would ask the leadership and the Speaker to press the new Secretary of HHS, Mrs. Donna Shalala, to approve the California Plan to spend $175 million that was approved by Congress last October. Ten percent would go to adult education for the new California permanent residents who have acquired amnesty in our state. We still haven't had the approval to use the money, and our schools have been closing down right and left.

Two, to press for the $1.4 billion that the federal government owes California for immigrant services. We praise you for the efforts you and the Governor have already made in this regard. We're going to take 75 of our students to walk the halls of Congress, and show the Congressmen and the Senators what they're paying for in terms of the monies that we're asking for.

Finally, we would ask you to augment the pools of loan guarantees, so that small farmers and small businessmen can obtain loans for the working capital needed to expand or save their businesses. Thank you very much. God speed your visit to Washington.

SPEAKER BROWN: Mr. Corona, thank you very much, and thank you for your consistent, on-going, and life-long commitment to the people of the state of California. I've made notes on the $175 million of which you spoke.

Let me ask Assembly Member Margaret Snyder to say a few words. Ms. Snyder serves on the Assembly Committee on Agriculture, and I want her to speak about a topic that has only been discussed in passing during this Summit -- California agriculture. Ms. Snyder.

ASSEMBLY MEMBER MARGARET SNYDER: Thank you, Mr. Speaker. I promise not to editorialize too much. When we talk about new technologies, please let's not forget the old. One job in 10 in California is directly connected to agriculture. In my district, the 25th Assembly District, it is one in six; in Stanislaus County, one in three. So, I make my plea not to forget agriculture. Agricultural products go through your ports; agricultural products will go on your trains; and, agricultural products will go on your highways. So, I am asking you to keep this in mind. You in the business community, please don't forget that farmers are small business men and women, and they need your help also.

SPEAKER BROWN: Mr. Kardon.

MR. ROBERT KARDON: I'm here to speak briefly about a willing partner that is often overlooked in helping solve some of the economic problems in California. I'm talking about the nonprofit sector. I'm the President of the California Association of Nonprofits. We have 2,000 nonprofit organizations in this state, but that is only a small fraction. There are actually 60,000 nonprofit organizations in California, and they represent 8 percent of the labor force. We are talking about community-based organizations which are important to developing and revitalizing our communities.

Within these 60,000 nonprofit organizations, we have 750,000 Californians employed. That's more than federal and state governments combined. And yet, we haven't quite got ten to the table as part of the planning process. We don't appear in any significant way in the ADEPT report or the Ueberroth report. One of the things that has happened in the hallways here for the nonprofit sector during this Economic Summit is that we got together with the philanthropic community, which also is an important venture capitalist in this state. They put out $1 billion a year in California to help communities develop. We've spoken to them, and they want to support us in having town meetings as a follow-up to this Economic Summit throughout the state, bringing together the leadership in the nonprofit sector and talking about how we can increase our role in improving the economy of California.

I just want to give a couple more facts about the nonprofit sector so that we can get an idea of a resource we ought to call on more to help with the state's economy. Seven percent of the state's gross product is through these nonprofit organizations, and it represents 20 percent of the state's service economy. California nonprofits spend $28 billion annually in California and have assets of $60 billion. Seventy percent of all low-income housing in California is produced by nonprofits. Over half of California's adult population does volunteer work with nonprofits, which we don't even count into the figures on wages or the effect it has on what it produces for California.

As you know, the nonprofit sector provides educational services, community-based medical care, job training, affordable housing, and myriads of programs that deal with human needs in communities. When we talk about revitalizing our communities, one of the interesting aspects is: How do you attract business, and how do you attract more investment in communities? You make them more viable; you make the quality of life better. The community-based programs provide that infrastructure.

One of the things I think we can do is be the natural conveners. We enjoy a lot of trust. Unfortunately, a lot of studies have shown that we have lost a lot of faith in government to be able to solve our problems. But, people feel empowered through community-based organizations and the voluntary boards of directors that oversee these groups involve the leadership throughout our local communities. We are the natural conveners. There is an opportunity to use us. We welcome being used in that way; bringing together all the diverse elements of the community to make these communities more attractive and to bring in more business.

My final point is that we intend to have a series of these town meetings as a follow-up to this Summit. The philanthropic community has said it will support them, and we are going to go around and bring a set of recommendations to you in the very near future as to how the nonprofit sector can bring more energy and creative thinking to solve some of these problems. We look forward to talking to you about that.

SPEAKER BROWN: Thank you. Now we are going to Mr. Gil Friend.

MR. GIL FRIEND: Thank you, Mr. Speaker, for the opportunity to participate in this important forum. I'm from the San Francisco Bay Area. As a businessman, I'm gratified by the repeated calls that we've heard at the Summit for regulatory streamlining and rationalization, because our business involves working with companies as small as the Nature Company and as large as Sun Micro Systems, in finding ways to embrace environmental quality as a key strategic advantage. I wanted to underscore a point made briefly by Mr. Ueberroth yesterday: regulatory reform must proceed without weakening the environmental quality standards that are so critical to the international competitiveness of California companies. This is critical for a few reasons.

First and foremost, pollution is waste; waste is inefficient; inefficiency saps profits. Second, environmental standards are becoming a critical factor in international competitiveness, and, if there is any doubt on this, look at the international strategies of Germany and Japan. Third, there is ample evidence that well-designed regulations actually drive creativity and innovation in industry after industry.

So, I encourage you, as you look at the regulatory reform process, to maintain the high standards of environmental quality in which California has, in fact, been a leader in throughout the world.

One other factor of regulatory reform that was not mentioned at all in the last two days is the issue of public participation in the regulatory process. It is an inconvenient matter to be sure. But we have seen case after case, where the experts are not necessarily the experts; where often the real experts come from the uncredentialed public community. Love Canal, perhaps, is the most sterling example of that.

We need to streamline the regulatory process, but if we sacrifice democracy for efficiency, and limit public participation in the critical quality of life issues, then we may get neither democracy nor efficiency. The good news, of course, is that high environmental quality standards can support technical innovation and economic prosperity for California, and I encourage you to produce those reforms with those standards intact.

SPEAKER BROWN: Thank you. Michael.

MR. MICHAEL CLOSSON: Thank you, Mr. Speaker. I'm Michael Closson, and I'm with the Center for Economic conversion, based in Mountain View, California. I wanted very briefly to reiterate the importance of dealing with defense conversion in the context of revitalizing California's economy. As we are well aware, defense cuts are a significant factor in the economic decline of our state, and we are also very well aware that the talent and technology in the defense sector are an incredibly valuable resource for our state. In fact, I'd go so far as to say that the relatively smooth transition of the defense workforce and the technology in the defense sector can become a catalyst to revitalize our economy and move us on to a sustainable path for the 21st century.

Frankly, our state government has not been as quick to respond to that challenge as a number of other states have. We are working with states all around the country that are defense dependent and that have developed strategies, developed taskforces, developed various kinds of programs to address the issue of defense conversion. I think the time for us to act in California is right now. It is already past the time, but it is critical to seize the time right now. What we need is to have a two-phase program for economic conversion.

One is coordinated economic adjustment strategies to address the problems of workers, communities, and companies that are impacted by defense cutbacks. The second is an economic revitalization strategy that stimulates our economy and puts us on a sustainable path. It is particularly important to approach the latter part, economic revitalization, in terms of addressing the question: Conversion to what?

We must answer that question by looking at the critical needs facing our state and our society in general. Some of those critical needs are natural outlets for the talent and technology in the defense sector; for example, environmental restoration, nonpolluting technologies, renewable energy development, and mass transit. These have been mentioned before, but I think it is incumbent upon us to develop a systematic strategy for transitioning the defense sector to address these challenges.

It is very important for us to approach this task in a systematic way. With our assistance, Senator Roberti has already introduced legislation that would set up a state taskforce on economic conversion. We would encourage you, Mr. Speaker, and other Members of the Assembly here, to introduce companion legislation, because I think it is high time for us to seize this opportunity. Such a taskforce can be very helpful in leveraging some of the federal conversion monies that are now becoming available. As a matter of fact, I think we are going to see this evening, in President Clinton's State of the Union address, a recommendation that significant resources be channeled toward the economic conversion issue. Since California now consumes about 20 percent of all federal procurement dollars, it is imperative for us to at least be able to channel 20 percent of the economic adjustment dollars from the federal government to addressing the issue of defense conversion. We stand ready to help you in addressing that challenge. Thank you.

SPEAKER BROWN: Thank you very much. Ms. Kathy Masera.

MS. KATHY MASERA: Thank you. First of all, before I comment, I would like to commend you, and particularly your staff, for the coordination and effort and hard work the last two days. It has been quite remarkable, considering how many people are here.

My remarks deal with the linkage of employment and training programs to jobs. In this state, we currently have 23 programs that deal with employment and training, and most all of which also provide some form of job placement. My problem with that is that about eight of those programs actually cost the state 90% of the $3.5 billion and serve about 90% of the people, which means we are funding 15 programs out there that I believe could be consolidated and integrated into placement services. I am concerned with the linkage of information about available jobs after we get through training people.

Clearly, most of these programs do not integrate or communicate with each other, and, in most cases, they do not communicate within their own programs. Most people are unaware that, when they go into the Department of Labor or to an EDD office to look for a job, each of those offices has separate and distinct job banks, and they do not communicate with each other or share that information from one office to another even within the same city, or the same county, or the same geographical or market region. Any time you create a larger job bank and facilitate a larger applicant pool, you are going to facilitate more people getting jobs. That is something that could be done very quickly. It will not cost a great deal of money, and it can have an immediate impact on economic development. I urge those of you in the Legislature to look into this.

If you take the problem one step further, we have a system that creates discrimination, because of how we deal with job information. We keep poor people in poor neighborhoods, and we only allow them to look at information on jobs from companies within those regions. It is something that has been going on for the last 50 years. It is something that has been addressed periodically, usually during recessionary economies, but nothing has ever been done to effectively correct the problem.

SPEAKER BROWN: Thank you very much, Kathy. Now, Yolanda Renaldo.

MS. YOLONDA LENIER RINALDO: Thank you, Mr. Speaker. I'm going to be very brief in my comments. I want to return to the topic of investing in people. I want to talk about a program that has put 178,000 welfare recipients into full-time and part-time jobs. They've gone from being tax users to taxpayers. That program is GAIN. We need to continue investing in our poor; we need to make them participants in our economy today. We have thousands of welfare recipients on waiting lists to get into the GAIN program. I have three recommendations this afternoon.

First, the administration and the Legislature should give a direct mandate to both the GAIN program and the JTPA to form a partnership to use our mutual resources and expertise to better the lives of those who deserve our attention. Second, I want the Legislature to consider eliminating the prohibition of placing GAIN participants in work experience in the for-profit sector. Currently, college students or vocational training students can indeed do work experience in the for- profit sector. GAIN participants are not allowed to. This would enhance the partnership that we desperately need for GAIN to become successful, and that is a partnership with the private sector, the for-profit sector, where the jobs are. Lastly, fully fund GAIN to take care of that waiting list. These people are eager; they want to learn; they want to get off assistance. We can do it; we've proved it over the last four years in this program. I hope you will give some consideration to my recommendations. Thank you very much.

SPEAKER BROWN: Thank you very much.

Let me thank all of those who attended the Summit: the presenters, the panelists, the sponsors, and those who opened their corporate pocketbooks to offer assistance. Let me thank the Governor, Senator Roberti, Members of the State Senate, and particularly the Members of the State Assembly who conducted all those mini summits throughout the state, both Democrats and Republicans. I want also to thank the staff people who did such an extraordinary job and the cable systems who agreed to broadcast these proceedings.

I believe that the Summit is just a simple beginning. Clearly, where we go from here will depend upon how extraordinarily dedicated each of us happens to be, whether we are public policymakers or the participants who came to educate the policymakers. I, frankly, am willing, on behalf of the membership of my House, to accept the challenge that has been given to us. I think it might be interesting to simply have a Summit reunion, one year from today, (applause) for no more than four or five hours, with just the original Summit attendees, to see exactly where we are, what we've done, and whether or not we've been as responsive as we intended to be.

Finally, I want to thank those Californians who have been watching and listening to these proceedings. It is for you that this effort was undertaken and for you that our future work will be done. I trust that our efforts will have not gone in vain, and I look forward to the reunion.